REDACTED FOR PUBLIC INSPECTION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended (47 U.S.C. 160(c)), for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, and for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska, Incumbent Local Exchange Carrier Study Area	))))))))))	WC Docket No. 06-109

REPLY COMMENTS OF ACS OF ANCHORAGE, INC. IN SUPPORT OF ITS PETITION FOR FORBEARANCE FROM CERTAIN DOMINANT CARRIER REGULATIONS OF ITS INTERSTATE ACCESS SERVICES AND FROM TITLE II REGULATION OF ITS BROADBAND SERVICES

Leonard A. Steinberg
General Counsel
ACS OF ANCHORAGE, INC.
600 Telephone Avenue, MS 65
Anchorage, AK 99503
(907) 297-3000

Karen Brinkmann
Elizabeth Park
Anne Robinson*
LATHAM & WATKINS, LLP
Suite 1000
555 Eleventh Street, N.W.
Washington, DC 20004-1304
(202) 637-2200

Counsel for ACS of Anchorage, Inc.

September 11, 2006

*Licensed to practice law in California

TABLE OF CONTENTS

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended (47 U.S.C. 160(c)), for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, and for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska, Incumbent Local Exchange Carrier Study Area	)	WC Docket No. 06-109

REPLY COMMENTS OF ACS OF ANCHORAGE, INC. IN SUPPORT OF ITS PETITION FOR FORBEARANCE FROM CERTAIN DOMINANT CARRIER REGULATIONS OF ITS INTERSTATE ACCESS SERVICES AND FROM TITLE II REGULATION OF ITS BROADBAND SERVICES

ACS of Anchorage, Inc. ("ACS"), by its attorneys, hereby submits its response to the comments submitted in the above-referenced docket, regarding ACS's petition to forbear from application of certain dominant carrier regulation as applied to ACS's Anchorage, Alaska, incumbent local exchange carrier ("ILEC") study area ("Anchorage") pursuant to Section 10 of the Communications Act of 1934, as amended (the "Act").[1]

I. INTRODUCTION

On May 22, 2006, ACS filed a petition for forbearance from certain dominant carrier regulation of its interstate access services and from Title II regulation of its broadband services.[2] Neither of the comments filed in response by General Communication, Inc.[3] ("GCI")

---

[1] 47 U.S.C. § 160.

[2] *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended (47 U.S.C. 160(c)), for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, and for Forbearance from Title II Regulation of Its Broadband Services, in*

or jointly by Time Warner Telecom, Inc., CBeyond Communications, LLC, and One Communications Corp.[4] ("TWT") provides evidence to support continued treatment of ACS as a dominant carrier in the Anchorage study area. The Commission should find especially compelling ACS's loss of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the access lines in the mass market and **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the enterprise market.[5] Because ACS is subject to significant competition for both access and broadband services with respect to residential and business customers and has satisfied all the criteria articulated in the *Qwest Order*, the regulations identified in ACS's Petition are no longer necessary to facilitate competitive entry, necessary to protect consumers or consistent with the public interest.

With respect to interstate access, the Commission should follow its precedent in the *Qwest Order*[6] and grant ACS forbearance relief based on the overwhelming market share that GCI has gained. By ACS's estimate, as of the end of last year, GCI serves approximately **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of its mass market customers and **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of its enterprise customers using its

---

the Anchorage, Alaska, Incumbent Local Exchange Carrier Study Area, WC Docket No. 06-109 (filed May 22, 2006) ("ACS Petition").

3 *Comments of General Communication, Inc. on ACS of Anchorage's Petition for Forbearance From Certain Dominant Carrier Regulation of Its Interstate Access Services and from Title II Regulation of Its Broadband Services*, WC Docket No. 06-109 (filed Aug. 11, 2006) ("GCI Comments").

4 *Opposition of Time Warner Telecom, Inc., CBeyond Communications, LLC, and One Communications Corp.*, WC Docket No. 06-109 (filed Aug. 11, 2006) ("TWT Opposition").

5 *Cf. Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Omaha Metropolitan Statistical Area*, Memorandum Opinion and Order, 20 FCC Rcd 19415 ¶ 28 (2005) ("*Qwest Order*").

6 *Id.* at ¶¶ 39-43.

own facilities.[7] GCI's public statements make clear that it is continuing at a rapid pace to transition off of ACS's UNEs.[8] Considering that GCI's non-UNE market share in providing both switched and special access services continues to grow with significant elasticity of supply and demand, and given GCI's superior size and resources, the decision to grant non-dominant treatment should be straightforward. ACS already has agreed to a cap on terminating switched access rates and similarly would agree to freezing ICLS at current per-line levels.

The enterprise market—including switched and special access services and broadband Internet services—is analyzed as a single product market.[9] Although the Commission found insufficient evidence in the Omaha market to justify forbearance with respect to business customers in the *Qwest Order*,[10] ACS's significant loss of market share compels forbearance. ACS has only incomplete information about the availability of alternative special access facilities, but even this limited data establishes GCI's market-wide facilities presence and indicates other providers of alternative facilities. GCI alleges it is unable to reach certain business customers using its own facilities without providing any specific information to back up this claim. Moreover, GCI fails to describe its extensive fiber facilities and does not provide information regarding the extent of its ability to provide special access services over these facilities or the facilities of third parties such as AT&T.

---

[7] Statement of Robert G. Doucette ¶ 7, ACS Petition, attached thereto as Exhibit A ("Doucette Statement"). The mass market figure excludes broadband services, which are analyzed as a separate market, while the enterprise figure includes interstate, special access, and broadband Internet access connections. *Id.* at ¶ 3.

[8] General Communication, Inc. Q2 2006 Earnings Call Transcript 8 (Aug. 9, 2006), attached hereto as Exhibit A ("GCI Earnings Call") (stating that it will complete upgrading almost its entire network by the end of 2007).

[9] *Qwest Order* ¶ 22 & n.63.

[10] *Id.* at ¶ 50.

The market for broadband services is undeniably competitive. Here again, the superior size and resources of ACS's competitors, market elasticities, and overall market share data prove ACS's case. The Commission has recognized that broadband competition is pervasive and has issued decisions taking a deregulatory approach to certain broadband services.[11] A variety of ILECs have filed broadband forbearance petitions and several have advocated relief for all ILECs nationwide.[12] In Anchorage as elsewhere, cable is the only dominant broadband provider, and GCI has **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the mass market broadband share in Anchorage.[13] Based on the record in this proceeding, the Commission should grant ACS's request for forbearance from Title II regulation broadband services in Anchorage. Alternatively, if the Commission should rule first on those later petitions, ACS should be included in any relief granted.

II. ACS HAS SUFFICIENTLY SPECIFIED ITS REQUESTED RELIEF

Consistent with recent precedent, ACS has detailed its desired relief with sufficient particularity for the Commission's consideration. The D.C. Circuit recently rejected

---

[11] *E.g., Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, Report and Order, 20 FCC Rcd 14853 (2005); *High-Speed Access to the Internet Over Cable and Other Facilities; Internet Over Cable Declaratory Ruling; Appropriate Regulatory Treatment for Broadband Access to the Internet Over Cable Facilities*, Declaratory Ruling and Notice of Proposed Rulemaking, 17 FCC Rcd 4798 (2002), aff'd *Nat'l Cable & Telecomms. Ass'n v. Brand X Internet Servs.*, 125 S. Ct. 2688, 2695 (2005).

[12] *Qwest Petition for Forbearance Under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Broadband Services,* WC Docket 06-125 (filed June 13, 2006); *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Its Broadband Services*, WC Docket 06-125 (filed June 13, 2006); *Petition of BellSouth Corporation for Forbearance Under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Its Broadband Services,* WC Docket 06-125 (filed July 20, 2006) (collectively, the "BOC Petitions"); *Petition of the Embarq Local Operating Companies For Forbearance Under 47 U.S.C. § 160(c) From Application of Computer Inquiry and Certain Title II Common-Carriage Requirements*, WC Docket No. 06-147, DA 06-1545 (filed July 28, 2006); *Petition of the Frontier and Citizens ILECs for Forbearance Under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Their Broadband Services*, WC Docket No. 06-147 (filed Aug. 4, 2006).

[13] Doucette Statement ¶ 4.

the Commission's ruling that AT&T (at that time SBC) failed to identify with sufficient particularity the services and regulations for which it sought forbearance.[14] AT&T requested forbearance from "'common carrier' and 'economic' regulation under Title II," without specifying the provisions of Title II this description excluded.[15] Nevertheless, the D.C. Circuit concluded that this description was likely sufficiently specific based on previous FCC precedent.[16] Similarly, Verizon was successful in using a broad level of generality to describe services and regulations when seeking forbearance from Title II of the Communications Act for its broadband services.[17] Although Verizon provided the details of the items from which it sought forbearance only shortly before its petition was to be decided, the Commission did not deny Verizon the full relief it requested.

ACS's Petition contains a degree of specificity that far exceeds the standard established by these cases. The Petition's Appendix A lists and explains the specific dominant carrier regulations from which ACS is seeking forbearance for its interstate access services.[18] The Petition itself also provides examples of regulations that would not be affected by ACS's request for relief.[19] ACS points out quite clearly that wholesale exchange service would

---

[14] *AT&T v. FCC*, 452 F.3d 830, 838-39 (D.C. Cir. 2006).

[15] *Id.* at 838.

[16] *Id.* at 838-39.

[17] *Petition of the Verizon Telephone Companies for Forbearance under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Their Broadband Services*, WC Docket No. 04-440 (filed Dec. 20, 2004).

[18] ACS Petition app. A.

[19] *Id.* at 4.

continue to be offered for resale pursuant to Section 251(c)(4) of the Act.[20] In addition, the six pages of the Petition devoted to the Anchorage enterprise market make clear that ACS seeks relief in both the residential and enterprise markets.[21]

However, GCI and TWT focus on semantic distinctions between "retail" and "wholesale" services. The Commission's forbearance analysis for dominant carrier regulation focuses on retail competition.[22] ACS unambiguously seeks relief from dominant carrier regulation of services the Commission classifies as "access," but explains that end-users will continue to enjoy the protections of state regulation of retail (end-user) rates.[23] Further, ACS seeks the same relief from Title II regulation for broadband services granted to Verizon for packetized services offered at speeds greater than 200 kbps.[24] Several other carriers have pending forbearance petitions for these same broadband services. Thus, the scope of the ACS Petition is clear.

---

[20] *See id.* & n.6; *see also* ACS *Ex Parte* Filing Dated July 21, 2006, at 2-3, *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended (47 U.S.C. 160(c)), for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, and for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska, Incumbent Local Exchange Carrier Study Area*, WC Docket No. 06-109 (filed July 21, 2006) ("ACS July *Ex Parte*") (discussing GCI's meritless "Motion to Dismiss").

[21] ACS July *Ex Parte* 2-3 (citing ACS Petition 39-45). TWT and GCI implausibly argue that ACS implies it does not seek forbearance in the enterprise market merely by stating that ACS seeks relief "consistent with" the *Qwest Order*. TWT Opposition 4; GCI Comments 3.

[22] *See, e.g., Qwest Order* ¶ 25.

[23] ACS Petition 51.

[24] Letter from E. Shakin to M. Dortch 2, *Petition of the Verizon Telephone Companies for Forbearance under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Their Broadband Services*, WC Docket 04-440 (filed Feb. 7, 2006) (describing the first of two categories for which Verizon sought relief as "packet-switched services capable of 200 kbps in each direction," including "services that route or forward packets, frames, cells, or other data units based on the identification, address, or other routing information contained in the packets, frames, cells, or other units").

III. THE COMMISSION SHOULD CONSIDER THE ANCHORAGE STUDY AREA AS A SINGLE GEOGRAPHIC MARKET IN ITS FORBEARANCE ANALYSIS

The Commission should base its forbearance determination on an analysis of the Anchorage study area in its entirety. In the *Qwest Order*, the Commission determined that the relevant geographic market was Qwest's service area in the Omaha Metropolitan Statistical Area ("MSA").[25] Although the Commission considered wire centers as separate markets in its Section 251(c)(3) forbearance analysis, it did not do so when conducting its analysis for Qwest's request for non-dominant treatment.[26] The Commission found it appropriate to grant forbearance from dominant carrier regulation in the entire MSA even though the cable operator did not have facilities in certain wire centers (and thus UNE forbearance was not granted in those wire centers).

ACS urges the Commission to define the geographic market broadly, as it did in the *Qwest Order*, because ACS faces extensive competition throughout this area. ACS established, in connection with its petition for forbearance from UNE obligations (in docket 05-281), that there is substantial facilities-based competition in all five of the ACS wire centers. Even if there is greater availability of facilities in some wire centers than in others, however, ACS's loss of market share and the supply and demand elasticities in the market support a study-area-wide grant of non-dominant treatment.

GCI's suggestion that the geographic markets should be smaller based on UNE availability is unwarranted. As discussed in the UNE forbearance proceeding, competition in the Anchorage market is not dependent on the availability of UNEs. There is substantial facilities-based competition in Anchorage, and GCI has publicly stated that it will end its reliance on

---

[25] *Qwest Order* ¶ 24.

[26] *Compare id.* at ¶ 57 *with id.* at ¶ 24.

ACS's UNEs by next year.[27] GCI prefers to use ACS's UNEs where it is cheaper to do so than to build out its own facilities.[28] Contrary to GCI's suggestion,[29] geographic markets are not determined by the areas in which a CLEC has chosen to deploy its own facilities.[30] By defining markets more narrowly than the Anchorage study area, GCI hopes to ensure that ACS continues to be burdened with unnecessary dominant carrier regulations so that GCI can maintain its regulatory advantage over ACS. Forbearing from dominant carrier regulation throughout the study area would encourage GCI to deploy facilities in these smaller areas and would put ACS and GCI on equal regulatory footing.

GCI advocates that the Commission adopt a novel approach of analyzing the enterprise product market on an individual customer basis.[31] The D.C. Circuit recently affirmed the Commission's finding that such a building-by-building approach is an unworkable standard.[32] Furthermore, GCI's suggestion would ensure that carriers never obtained Section 10 forbearance from dominant carrier regulations.

---

[27] GCI Earnings Call 8.

[28] ACS *Ex Parte* Filing Dated Sept. 8, 2006, at 8, *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Section 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed Sept. 8, 2006) ("ACS Sept. UNE *Ex Parte*"); *Reply Comments of ACS of Anchorage, Inc., In Support of Its Petition for Forbearance from Section 251(c)(3) and 252(d)(1)*, WC Docket No. 05-281, at 9 (filed Feb. 23, 2006) ("ACS UNE Reply Comments").

[29] GCI Comments 10.

[30] The Commission has found that wire centers serve "'as the appropriate level of geographic granularity at which to assess requesting carriers' impairment'" because they capture both the actual and potential competition in a given market. *Covad Commc'ns Co. v. FCC*, 450 F.3d 528, 541 (D.C. Cir. 2006) (quoting and affirming *In the Matter of Unbundled Access to Network Elements*, Order on Remand, 20 FCC Rcd 2553, 2620 (2005)).

[31] GCI Comments 8-9.

[32] *Covad*, 450 F.3d at 544 (describing an individual approach as "an administrative nightmare, a font of endless litigation, and an ineffective metric of impairment" (citing *In the Matter of Unbundled Access*

Likewise, GCI's argument that forbearance would allow ACS to increase prices to customers that GCI cannot reach using its own facilities is based on the erroneous assumption that the market is not competitive. All customers in the market benefit from competitive pricing even if GCI does not serve them today, because ACS cannot profitably raise prices to those customers. Based on the high levels of competition, increasing rates for a certain class of customers is not commercially feasible. As economist Howard Shelanski explains, "[c]ustomers alienated by non-competitive pricing and/or poor service would prove easy targets for competitors whose expanded offerings are imminent."[33] This is the definition of the absence of market power.[34]

Nor is ACS's unbundling petition relevant to this analysis. GCI is a formidable competitor in the local exchange market, as well as a leader in the long-distance market, and has exclusive facilities, which gives it significant leverage in commercial negotiations for access to ACS's facilities. Thus, if UNE forbearance is granted, ACS expects that GCI would continue to have access to ACS's network at commercially negotiated rates, provided GCI is willing to give ACS reciprocal access. Therefore, all customers in the Anchorage study area will continue to have the same competitive choices.[35] The extremely high levels of competition, GCI's ability to serve customers over its own facilities within each of ACS's five wire center boundaries, and area-wide rate averaging provide adequate protection against any potential anticompetitive

---

to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Order on Remand, 20 FCC Rcd 2533, 2620-25 (2005))).

[33] Statement of Howard A. Shelanski in Support of Reply Comments of ACS of Anchorage, Inc. ¶ 11, attached hereto as Exhibit B ("Shelanski Statement").

[34] *Qwest Order* ¶ 18 n.54 (defining market power as "the ability to raise prices by restricting output, or to raise and maintain price above the competitive level without driving away so many customers as to make the increase unprofitable" (quotation marks and citation omitted)).

[35] ACS Sept. UNE *Ex Parte* 8; ACS UNE Reply Comments 10.

behavior with respect to any individual customers in the market. Therefore, the study area is a single geographic market.

IV. ACS POSSESSES MARKET POWER IN NEITHER THE MASS MARKET NOR ENTERPRISE MARKETS

The Commission has consistently made forbearance determinations based on market share and competition in the market for retail services.[36] The Commission has concluded that competition in the retail market pressures ILECs to tailor wholesale offerings to grow their share of the market and thus offer customers reasonable rates.[37] Neither GCI nor TWT disputes the significant retail competition in Anchorage. GCI instead argues that retail competition is wholly dependent upon the availability of UNEs; however, GCI's demonstrated ability to serve both mass market and enterprise customers on its own facilities contradicts these arguments.

A. The Mass Market and Enterprise Product Markets Should Not Be Evaluated On A More Granular Basis

In its Comments, GCI advocates a market share analysis based on product markets that are more narrowly defined than mass market and enterprise. GCI asserts that the Commission should examine small, medium and large business customers as separate markets, and suggests that customers receiving service pursuant to individual term contracts should be treated as separate markets.[38] As discussed above with respect to the geographic market definition, parsing the enterprise product market into services that GCI deems to be more

---

[36] *See, e.g., Petition for Forbearance of the Verizon Telephone Companies Pursuant to 47 U.S.C. § 160(c); SBC Communications Inc.'s Petition for Forbearance Under 47 U.S.C. § 160(c); Qwest Communications International Inc. Petition for Forbearance Under 47 U.S.C. § 160(c); BellSouth Telecommunications, Inc. Petition for Forbearance Under 47 U.S.C. § 160(c)*, Memorandum Opinion and Order, 19 FCC Rcd 21496 ¶ 26 (2004) ("*Verizon Broadband Forbearance Order*").

[37] *Id.*

[38] GCI Comments 9, 13.

profitable to provide using ACS's UNEs should not preclude forbearance. Although serving certain business customers may require GCI to make investments in its facilities, nothing that GCI describes in its Comments or in the UNE forbearance petition docket equates to market power that would warrant denial of non-dominant treatment.[39]

B. ACS Requests The Same Regulatory Treatment As A CLEC For Purposes of Switched Access Services

The respective market shares of ACS and GCI and elasticity in the Anchorage market warrant forbearance from dominant carrier regulation of switched access services. As TWT notes, "[t]he FCC's rules and past precedents define a dominant carrier as a carrier that possess market power."[40] No commenter disputes that ACS has **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the overall switched access lines in the market and merely **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the mass market switched access lines.[41] GCI unquestionably is the dominant provider of switched access services.

---

[39] ACS Sept. UNE *Ex Parte* 15-18; ACS UNE Reply Comments 37-39. For instance, GCI does not indicate what portion of its enterprise customers require clock synchronization services or whether it could provide these services over GCI's fiber facilities. *See* GCI Comments 14; ACS Sept. UNE *Ex Parte* 17-18.

[40] TWT Opposition 6.

[41] GCI Comments 6 ("There is no question that the Anchorage market is currently highly competitive with respect to retail services." (emphasis omitted)). TWT does not address mass market services at all.

Doucette Statement ¶ 5 (estimating that as of December 31, 2005, ACS possessed **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the overall Anchorage local exchange market, GCI had **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**, and additional competitors possessed the remaining **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**); *id.* at ¶ 4 (also concluding that ACS possessed **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the residential local exchange market, GCI had **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**, and AT&T Alascom possessed the remaining **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**).

GCI and other carriers have fully established networks, ensuring supply elasticity in Anchorage. As detailed in the context of ACS's UNE forbearance petition, GCI is not impaired in its ability to serve mass market or enterprise customers.[42] Therefore, variation between areas where GCI has completed its upgrades and those in which GCI will upgrade in the coming months does not establish a lack of supply elasticity. Even if these areas were examined as markets separate from the Anchorage study area, the fact that GCI has chosen to remain on UNEs in these areas does not mean that (1) GCI and other competitors do not have additional capacity in these areas, or that (2) there are barriers to entry in these areas. Furthermore, even if UNE forbearance is granted, GCI will serve these customers either on its own facilities or on ACS's UNEs, which ACS and GCI can be expected to negotiate on a commercial basis.[43] Thus, there is no need to condition forbearance regarding mass market switched access on continued UNE regulation.

Based on this level of competition and elasticity in the Anchorage market, ACS should be treated as any other CLEC in the market. ACS is asking for the same level of forbearance granted for mass market access services in *Qwest*—to be regulated under "the same regime under which competitive LECs currently operate."[44] As ACS made clear in its Petition, ACS would be subject to the same regulations as other non-dominant carriers, including the ceiling on terminating interstate switched access rates.[45] ACS is not seeking total deregulation,

---

[42] *See, e.g.,* ACS UNE Reply Comments 37-40; ACS Sept. UNE *Ex Parte* 12-18.

[43] *See* ACS UNE Reply Comments 43-44; ACS Sept. UNE *Ex Parte* 3 (discussing how "ACS would be unable to negotiate access to GCI's numerous facilities if ACS offered UNEs at prohibitively high rates or not at all").

[44] *Qwest Order* ¶ 41.

[45] ACS Petition 4.

but rather appropriate regulatory treatment in light of the fact that ACS is no longer a dominant carrier in Anchorage.

Furthermore, treatment as a CLEC with respect to switched access services would of course entail exit of the NECA Common Line Pool, as GCI proposes.[46] As a non-dominant carrier, ACS agrees that it would no longer participate in the NECA Common Line Pool. Moreover, ACS agrees with GCI's proposal to freeze per line support at the level of ACS's last regulated rate-of-return support per line served.[47] Freezing per line support is consistent with the Commission's move towards true portability of universal service support among carriers, as well as a market-driven, deregulatory environment, without abandoning the universal service mandate under the Act.

ACS requests permissive detariffing, such as any CLEC would be eligible to invoke.[48] However, to the extent that ACS continues to provide switched access services under tariff, there is no legal impediment to its invoking "deemed lawful" status under Section 204(a)(3). Contrary to GCI's argument,[49] this Section is not limited to dominant carriers. The Commission has explicitly held that Section 204(a)(3) "does not distinguish between incumbent LEC and competitive LECs" and that "all LECs, including nondominant LECs, to the extent they file tariffs, are eligible to file tariffs on a streamlined basis."[50] Of course, if a non-dominant LEC invokes Section 61.23(c) to file a tariff on one-day's notice, or otherwise fails to follow the

---

[46] GCI Comments 24-25.

[47] *Id.* at 26-27.

[48] ACS Petition app. A.

[49] GCI Comments 29.

[50] *Implementation Of Section 402(b)(1)(A) Of The Telecommunications Act Of 1996*, Report and Order, 12 FCC Rcd 2170 ¶ 40 (1997).

streamlined tariff filing procedures specified in the rules, "deemed lawful" treatment would not be available.[51] However, streamlined procedures and "deemed lawful" status ought to be available to ACS regardless of whether it is subject to dominant carrier regulation. ACS anticipates any interstate switched access rates it continues to tariff will be subject to both the CLEC terminating rate benchmark[52] and competitive pressures. Nonetheless, ACS should have the option of filing tariffs on a streamlined basis, pursuant to Section 61.58 of the Rules.[53]

C. Forbearance With Respect To Enterprise Switched and Special Access Should Not Be Dependent On The Outcome Of The UNE Petition

GCI's attempt to dispute supply elasticity regarding special access services by once again turning to UNEs is unavailing.[54] First, GCI's facilities-based competition does not rely on UNEs. Even after UNE forbearance, ACS will not "control[] bottleneck facilities."[55] Second, market share and structure in the enterprise market demonstrate that dominant carrier regulation is unnecessary to ensure ACS's special access offerings are just, reasonable, and not unjustly or unreasonably discriminatory. ACS's market share of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the enterprise market establishes that it is not dominant, particularly considering that GCI has rapidly accumulated approximately **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the market share.[56] Nearly all business customers in Anchorage have a choice of facilities-based carriers, as well as a range of

---

[51] *Id.*

[52] 47 C.F.R. § 61.26.

[53] 47 C.F.R. § 61.58.

[54] GCI Comments 9-10, 22-24.

[55] TWT Opposition 2.

[56] Doucette Statement ¶ 4.

intermodal alternatives.[57] As discussed below, there is sufficient evidence to justify treatment of ACS as non-dominant with respect to business services.

1. GCI Is Not Impaired With Respect To Business Customers Without Access To ACS's UNEs Due To Its Extensive Fiber Facilities

GCI's arguments with respect to special access services focus on its inability to provide service to large enterprise customers on its cable facilities and that it cannot deploy wireless local loops ("WLLs") on a widespread basis.[58] However, these arguments are contradicted by the high degree of supply elasticity in the enterprise market in Anchorage resulting from GCI's long history as a long-distance and competitive access provider to enterprise customers. GCI has built out extensive cable and fiber facilities which it can rapidly expand with available technologies.[59] Commercially accepted DS1 technologies currently exist in the marketplace, and there is no question that fiber is ideally suited to providing the services demanded by enterprise customers. Further, GCI recognizes that CMRS cell sites are capable of using DS1 microwave for backhaul.[60] Additionally, GCI argues that WLLs do not provide

---

[57] ACS Petition 40 (citing Statement of Thomas R. Meade ¶ 2, attached as Exhibit A to *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as Amended, for Forbearance form Sections 251(c)(2) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281 (amended and refiled Oct. 6, 2005) ("ACS UNE Petition")).

[58] GCI Comments 14-19.

[59] GCI laments that "full commercial deployment" of industry-certified business technology is "likely a good two years away." *Id.* at 15. Even if GCI waited for *certified* solutions, rather than continuing to implement industry-*accepted* technologies, a two-year delay does not constitute impairment. In the *1992 Horizontal Merger Guidelines*, the DOJ and FTC designated two years as the period in which they will consider "committed entry alternatives" in a relevant market. U.S. DOJ & FTC, 1992 HORIZONTAL MERGER GUIDELINES § 3.2, 57 Fed. Reg. 41,552 (1992). Even under GCI's overly conservative estimate of when it will be deployed, the technology should be considered in the competition analysis. Shelanski Statement ¶ 10.

[60] GCI noted in its most recent earnings release that it lost a significant fiber optic cable customer to a competitor that is using a microwave system for the customer's traffic. GCI Q2 2006 Earnings Release 2, attached hereto as Exhibit C.

robust coverage;[61] however, WLL can certainly be used to fill in gaps in coverage of other technologies either in the short term or long term. Indicative of its wide-reaching network, GCI aggressively markets its enterprise services throughout Anchorage, offering a wide range of services comparable to ACS's.[62] As ACS points out in the UNE Forbearance Petition docket, GCI is not entitled to continue its reliance on UNEs merely because it elects not to adopt cost-effective and commercially viable technologies to provide service to enterprise customers over its own facilities. Allowing GCI to perpetuate its reliance on UNEs in this scenario is contrary to the Commission's goals of promoting facilities-based competition.[63]

GCI avoids any discussion of its ability to serve business customers using its extensive fiber facilities and provides only a partial description of its ability to use fiber to serve this class of customers. GCI's extensive fiber network[64] is ideal for serving sites that require multiple DS1s, and for bigger buildings in general. GCI serves a number of large business customers in Anchorage without the use of ACS's UNEs.[65] Additionally, although GCI claims

[61] GCI Comments 18.

[62] Statement of David C. Eisenberg ¶ 8, ACS UNE Reply Comments, attached thereto as Exhibit C ("Eisenberg UNE Reply Statement").

[63] *See* Statement of Howard A. Shelanski in Support of Petition of ACS of Anchorage, Inc. for Forbearance from Sections 251(c)(3) and 252(d)(1) ¶¶ 11-13, 25, ACS UNE Petition, attached thereto as Exhibit D.

[64] ACS UNE Reply Comments 23-24.

[65] ACS Petition 43.

that small businesses cannot economically be served by fiber,[66] other carriers in the United States have determined that deploying fiber to residential customers is profitable.[67]

GCI's argument that its cable and fiber facilities are insufficient to serve a substantial number of business customers throughout Anchorage[68] is unavailing. GCI fails to submit data, both in this proceeding and in connection with the UNE petition, explaining where its customers are located in relation to its cable or fiber networks.[69] GCI's analysis regarding the percentage of residential and commercial buildings it can potentially serve is based on unsubstantiated assumptions.[70] In its analysis, GCI only cites the unexplained figure of 80 feet as the distance for serving customers from its existing cable.[71] GCI's expert asserts that this distance is consistent with a drop length of 150 feet, but does not explain how the distance of a parcel relates to the drop length.[72] GCI also fails to provide any data to support its assumption that a distance of 80 feet reasonably corresponds to the industry-recognized lengths for cable plant drops, which can be as long as 400 feet. Indeed, the 80-foot cutoff used in GCI's analysis could exclude parcels that fit within this 400-foot parameter.[73] Further, GCI does not offer any

---

[66] Declaration of Alan Mitchell ¶ 11 ("Mitchell Decl."), attached as Exhibit A to GCI Comments.

[67] Verizon is in the midst of a $20 billion campaign to bring fiber to homes throughout the country. *See Beyond Cable. Beyond DSL*, THE WALL STREET JOURNAL (July 23, 2006); *Verizon Is Rewiring New York, Block by Block, in a Race for Survival*, THE NEW YORK TIMES (Aug. 14, 2006).

[68] GCI Comments 9.

[69] *See id.*; Mitchell Decl.

[70] *See* Exhibit 1, attached to Mitchell Decl.

[71] *See* Shelanski Statement ¶ 3 (discussing Mitchell Decl. ¶¶ 3-5).

[72] *See id.*

[73] *See id.*

sensitivity analysis to explain how changes in that distance will affect the number of customers that it estimates it can serve in a commercially reasonable amount of time.[74]

Moreover, GCI's assumption regarding the classification of buildings as residential and commercial properties appears to be entirely arbitrary and unrelated to where the buildings are actually located.[75] GCI does nothing to demonstrate the reasonableness of the cutoff value that it selects to distinguish commercial properties from residential properties. GCI provides neither a comparison of this cutoff amount to real-word values, nor a sensitivity analysis to demonstrate whether its estimates for locations "near" its facilities might change if a different value were used.[76] Further, as Mitchell concedes, his calculations are static and do not "represent the number or percentage of business or residential facilities that GCI could serve entirely over its own facilities in a commercially reasonable time."[77] Most significantly, GCI's estimates are a poor proxy for a map of its facilities and actual customer locations identified by type and current method of facilities-based service.[78] GCI's "black box" analysis does not provide sufficient information to evaluate it in any meaningful way.[79]

---

[74] *See id.* ¶ 4.

[75] *See id.* ¶¶ 5-6.

[76] *See id.*

[77] Mitchell Decl. ¶ 2. GCI does not mention the forward-looking analysis done by its expert in the UNE forbearance proceeding, which examined the feasibility of GCI providing service to Anchorage customers. Declaration of William P. Zarakas, *Opposition of General Communication, Inc., to the Petition for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications Act Filed by ACS of Anchorage*, WC Docket No. 05-281 (filed Jan. 9, 2006) attached thereto as Exhibit C. *See* Shelanski Statement ¶ 9.

[78] Shelanski Statement ¶ 8.

[79] *Id.* at 7.

ACS has reason to believe that GCI has fiber facilities which have not yet been identified in the record and that GCI could use to serve a significant number of enterprise customers in Anchorage.[80] In response to TWT's complaint regarding ACS's incomplete descriptions of GCI's fiber facilities,[81] the Commission should require GCI to present evidence of the locations of its fiber facilities and the customers it serves using these facilities. As in the UNE Forbearance Petition, GCI fails to present evidence useful for evaluating its ability to serve its customers over fiber facilities.

The Commission denied forbearance in the *Qwest Order* because Qwest failed to provide sufficient data to allow the Commission to reach a forbearance determination for the enterprise market.[82] By contrast, GCI's demonstrated ability to compete for and win a substantial number of enterprise customers and to serve them over its own facilities enables the Commission to determine that forbearance is justified.

2. TWT's Comments Have No Bearing On The Anchorage Enterprise Market

The Commission should disregard the comments submitted by TWT as wholly irrelevant to the Anchorage market. TWT does not provide service in Alaska and does not understand the nature and scope of competition that exists in Anchorage. TWT's arguments about the cost of fiber deployment may relate to some other markets in the United States. However, GCI has already deployed a substantial amount of fiber, making these arguments

---

[80] Statement of Mark Enzenberger in Support of Reply Comments of ACS of Anchorage, Inc. ¶ 2, attached hereto as Exhibit D.

[81] TWT Opposition 10.

[82] *Qwest Order* ¶ 50.

moot.[83] As previously discussed, GCI has extensive fiber facilities in Anchorage and has control of fiber into many commercial properties in Anchorage.[84] Thus, TWT's general arguments regarding insufficient competition described in other markets are irrelevant.[85]

Additionally, TWT's calculations in generating the statistic that ACS will serve **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of enterprise locations[86] are based on erroneous assumptions about GCI's ability to reach customers over its own facilities. TWT does not consider the real possibility that GCI could reach ACS's enterprise customers on its own facilities, but has not yet won these customers from ACS. Further, TWT's statistic does not account for the ever-growing number of customers GCI can serve using its own facilities.[87]

D. ACS Never Was Dominant In The Market For Broadband Services

Forbearance is also warranted in the broadband product market. ACS has never qualified as a dominant carrier, as defined by the *LEC Classification Order* and reaffirmed in the Qwest Order.[88] The wireline and intermodal competitors in the Anchorage market have ensured that ACS possesses only **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the

---

[83] ACS UNE Reply Comments 23-24, 46.

[84] ACS Petition 43.

[85] TWT Opposition 16. TWT additionally does not appear to understand the nature of the Anchorage enterprise market. It asserts that GCI "cannot deploy DS3s and DS1s loops [sic] in most areas." *Id.* at 10. DS3 loops are not needed in Anchorage, and GCI concedes that it already has plant "near" **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of medium and large business locations. GCI Comments 9.

[86] TWT Opposition 11.

[87] *EarthLink v. FCC*, No. 05-1087, 2006 U.S. App. LEXIS 20819, at *17-19 (D.C. Cir. Aug. 15, 2006).

[88] *Qwest Order* ¶ 18 (citing *Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area*, CC Docket No. 96-149, Second Report and Order in CC Docket No. 96-149 and Third Report and Order in CC Docket 96-61, 12 FCC Rcd 15756, 15776, 15782 (1992)).

broadband mass market.[89] GCI does not dispute the fact that it, rather than ACS, is the dominant provider of broadband Internet services in Anchorage.[90] GCI's large market share demonstrates both high demand and supply elasticities. A competitor is able to acquire **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**[91] of the market share only if customers are willing to switch among carriers (demand elasticity) and suppliers can relatively easily attain additional capacity (supply elasticity).[92]

GCI's dominant market share and ACS's relative disadvantage in terms of size and resources compared to GCI will lead to greater competition in the broadband market in the future. As affirmed in a recent D.C. Circuit case, analysis of competition in the broadband market requires a "forward-looking approach."[93] Additional competitors such as Clearwire, AT&T Alascom, and TelAlaska—all of which have deployed fixed wireless broadband networks in Anchorage—are ready to follow GCI's lead and provide broadband service to mass market and enterprise customers.[94] Taking into account both current and future providers, it is clear that ACS faces immense competition in the provision of broadband services.

This fierce broadband competition reflects a nationwide trend. The Commission has eliminated Title II regulation of retail broadband Internet access services, recognizing the

---

[89] Doucette Statement ¶ 4.

[90] GCI's Comments do not contain any substantive basis for opposition to ACS's requested forbearance in the broadband market.

[91] Doucette Statement ¶ 4.

[92] *Qwest Order* ¶¶ 33, 35.

[93] *Earthlink*, 2006 U.S. App. LEXIS 20819, at *18 (discussing Act § 706).

[94] Statement of Charles L. Jackson in Support of Petition of ACS of Anchorage, Inc. for Forbearance From Sections 251(c)(3) and 252(d)(1) ¶ 24 (citing Clearwire map), ACS UNE Reply Comments, attached thereto as Exhibit E; Eisenberg UNE Reply Statement ¶ 10.

high levels of competition in the broadband access market between DSL and cable modem service.[95] The D.C. Circuit recently affirmed the Commission's assessment of the broadband market as lacking "'the preconditions for monopoly.'"[96] Further, Embarq, Frontier and Citizens, and the BOCs all seek the same broadband forbearance relief as ACS requests in its Petition and as was granted to Verizon by operation of law.[97]

Furthermore, TWT's discussion of packetized transmission services[98] is wholly irrelevant to this proceeding. TWT uses ACS's proceeding to reargue its case regarding Ethernet-over-TDM from WC Docket No. 06-74.[99] GCI does not provide any information in the record to suggest that it suffers from the problems TWT has experienced in other markets.

V. FORBEARANCE WILL PROTECT CONSUMERS AND SERVE THE PUBLIC INTEREST

Even if the competition in Anchorage is imperfect, and even if the Commission does not find ACS to be non-dominant across all markets, the Commission still can and should

---

[95] *Qwest Order* ¶ 34 (finding the Omaha broadband Internet market highly elastic and citing the Commission's similar conclusions in *Verizon Broadband Forbearance Order*, 19 FCC Rcd 21496, 21506 ¶ 22 (2004); *Review of Regulatory Requirements for Incumbent LEC Broadband Telecommunications Services*, CC Docket No. 01-337, Notice of Proposed Rulemaking, 16 FCC Rcd 22745, 22748 ¶ 5 (2001); *Applications of Nextel Communications, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 05-63, Memorandum Opinion and Order, FCC 05-148 ¶ 167 (rel. Aug. 8, 2005)).

[96] *Earthlink v. FCC*, No. 05-1087, 2006 U.S. App. LEXIS 20819, at *14 (quoting *Verizon Petition* ¶ 21-23 (elaborating that cable modem providers, rather than ILECs, control a majority of lines, and that CLECs can compete in the market by "deploying their own fiber loops or accessing ILECs' legacy copper elements")).

[97] BOC Petitions; *Local Operating Companies For Forbearance Under 47 U.S.C. § 160(c) From Application of Computer Inquiry and Certain Title II Common-Carriage Requirements*, WC Docket No. 06-147, DA 06-1545 (filed July 28, 2006); *Petition of the Frontier and Citizens ILECs for Forbearance Under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Their Broadband Services*, WC Docket No. 06-147 (filed Aug. 4, 2006).

[98] TWT Opposition 11-15.

[99] *Id.* at 12, 13.

grant forbearance. Section 10 analysis requires the Commission to forbear requirements that are no longer needed to ensure just and reasonable charges and practices, unnecessary for the protection of consumers, and not in support of the public interest.[100] Consumers will be protected by the high-level of facilities-based competition in Anchorage and the continued regulation of ACS's rates and practices. ACS has a stronger case for forbearance than did other successful petitioners. For example, when the Commission declared AT&T non-dominant, it still had 60% of the long-distance market.[101] Additionally, the FCC, through Sections 201, 202, and 251(c)(4), will continue to regulate ACS's services. ACS will remain subject to RCA provisions requiring "just and reasonable" rates.[102] ACS also agrees to operate under the same ceiling on terminating interstate switched access rates imposed on Qwest pursuant to Section 61.26.[103]

Forbearance will serve the public interest by promoting increased facilities-based competition. The current asymmetric regulation of telecommunications providers hinders the development of competition in Anchorage. Anchorage is currently fully competitive in all product markets. In the *Qwest Order*, the Commission noted that applying dominant carrier regulations in areas that are competitive for end users limits the party's "ability to respond to competitive forces and, therefore, its ability quickly to offer consumers new pricing plans or service packages."[104] The Commission's previous ruling recognizing the level of competition in

---

[100] 47 U.S.C. § 160(a).

[101] *Motion of AT&T Corp. To be Reclassified as a Non-Dominant Carrier*, Order, 11 FCC Rcd 3271 ¶ 68 (1995).

[102] ALASKA STAT. § 42.05.301 (2006); ALASKA STAT. § 42.05.381 (2006).

[103] *Qwest Order* ¶¶ 40-41.

[104] *Id.* at ¶ 47.

Anchorage[105] and the RCA's determination that the local exchange market is competitive demonstrates that this market is ripe with "high supply and demand elasticities for end user customers."[106] Consequently, as in Omaha, forbearing from dominant carrier regulation "will serve the public interest by increasing the regulatory parity among providers"[107] in Anchorage. End users will be benefited by a level playing field in which ACS can respond to competitive forces and offer new pricing plans and service packages.[108]

The Commission's "phase II" pricing flexibility test supports granting ACS forbearance. Phase II pricing flexibility is available to price cap LECs that demonstrate that unaffiliated competitors have collocated in at least 50% of the LEC's wire centers in the MSA at issue, or in wire centers accounting for at least 65% of the LEC's revenues from the relevant services in the MSA.[109] The Commission continues to grant such pricing flexibility and has done so recently.[110] GCI's references to ongoing proceedings are unavailing.[111] Generalized

---

[105] *ATU Telecommunications Request for Waiver of Sections 69.106(b) and 69.124(b)(1) of the Commission's Rules*, Order, 15 FCC Rcd 20655 ¶ 21 (2000).

[106] *Qwest Order* ¶ 47.

[107] *Id.* at ¶ 49.

[108] *Id.* at ¶ 47.

[109] *Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Interexchange Carrier Purchases of Switched Access Services Offered by Competitive Local Exchange Carriers; Petition of US West Communications, Inc. for Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA*, Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221 ¶¶ 148-49 (1999).

[110] *See, e.g., Sprint Local Telephone Companies Petition for Pricing Flexibility for Special Access and Dedicated Transport Services*, Order, DA 06-753 (rel. Apr. 3, 2006); *Verizon Petition for Pricing Flexibility for Special Access Services,* Memorandum Opinion and Order, 20 FCC Rcd 9809 (2005); *Ameritech Petition for Pricing Flexibility for Special Access and Dedicated Transport Services; Nevada Bell Telephone Company Petition for Pricing Flexibility for Special Access and Dedicated Transport Services; Pacific Bell Telephone Company Petition for Pricing Flexibility for Special Access and Dedicated Transport Services; Southern New England Telephone Company Petition for Pricing Flexibility for Special Access and Dedicated Transport Services; Southwestern Bell Telephone*

comments made by third parties as part of proceedings that are still pending are neither persuasive nor particularly relevant—especially in comparison to the substantial evidence submitted by ACS of facilities-based competition in Anchorage.

VI. CONCLUSION

ACS is not seeking complete rate deregulation. ACS is requesting treatment as a CLEC in light of the fact that ACS is no longer a dominant carrier in the access market. Additionally, ACS seeks relief from regulation of its broadband services consistent with the relief widely sought by other ILECs, and granted to Verizon nationwide. Title II regulations are unnecessary for "carriers that are subject to effective competition."[112] If the Commission recognizes the extensive competition in Anchorage and grants ACS forbearance, the ensuing pricing flexibility will benefit customers. GCI argues that ACS's simultaneous requests for forbearance from both UNE and dominant carrier regulations are unprecedented. However, forbearance from such regulations is long overdue. The scope of ACS's requested relief appropriately reflects ACS's current position in Anchorage's competitive market.

Company Petition for Pricing Flexibility for Special Access and Dedicated Transport Services; Memorandum Opinion and Order, 19 FCC Rcd 10298 (2004).

[111] *See* GCI Comments 20.

[112] *Qwest Order* ¶ 10.

Respectfully submitted,

ACS OF ANCHORAGE, INC.

/s/ Karen Brinkmann
Karen Brinkmann
Elizabeth Park
Anne Robinson*
LATHAM & WATKINS, LLP
Suite 1000
555 Eleventh Street, N.W.
Washington, DC 20004-1304
(202) 637-2200

Counsel for ACS of Anchorage, Inc.

Leonard A. Steinberg
General Counsel
ACS OF ANCHORAGE, INC.
600 Telephone Avenue, MS 65
Anchorage, AK 99503
(907) 297-3000

September 11, 2006

*Licensed to practice law in California

Exhibit A

MANAGEMENT DISCUSSION SECTION

Operator: Welcome, and thank you for standing by. At this time. all participants are in a listen-only mode. After the presentation, we will conduct a question and answer session. [operator instructions]. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would like to introduce your host for today's conference, GCI's Chief Financial Officer, Mr. John Lowber. Sir, you may begin.

John M. Lowber, Chief Financial Officer, Senior Vice President, Secretary, Treasurer and Member of Finance Committee

Okay. Thank you, and thank you all very much for taking the time to join us today. I am John Lowber, the company's Chief Financial Officer. We have got the usual supporting cast here today, Ron Duncan who is our President and CEO and we have got Bonnie Paskvan, our Corporate Counsel and Greg Chapados who is our Senior VP of Federal Regulatory Affairs. Also, have my usual supporting cast of Fred Walker; our Chief Accounting Officer, Bruce Broquet; and, Peter Collins [ph]. We will all be available to participate in the Q&A session which will follow my initial comments.

A copy of our detailed press release can be found on our website. The conference call is being recorded and will be available for playback for 72 hours beginning at 4 P.M. Eastern Time today. The playback number is 1-866-415-2337 with an access code of 7461. In addition to the conference call, you may access the conference through the Internet. To access the call via net conferencing, log-on to our website at www.gci.com and follow the instructions. Webcast will be available for replay for the next two weeks.

I will now read the customary cautionary statement about forward-looking comments and then we will get started. Some of the statements made by GCI in this presentation are forward-looking in nature. Actual results may differ from those projected in forward-looking statements due to a number of factors. Additional information concerning such factors can be found in GCI's filings with the Securities and Exchange Commission.

We are pleased for the most part with our second quarter results. We set another new record for revenues with second quarter revenues totaling a 118.2 million representing an increase of 6.8% over the prior year quarter. EBITDA excluding share-based compensation expense totaled 39.5 million which compares to the 36.4 million we recorded last year. Excluding the $1 million benefit of the MCI credit we recorded in the year ago quarter, adjusted EBITDA increased to 11.6 percent. The second quarter results were consistent with our guidance and that we expected them to surpass those at the first quarter which they did quite handily.

Net income for the quarter was up slightly over the prior year quarter in spite of fairly large increases in non-cash expenses, including depreciation and share-based compensation. Selling and general administrative expenses excluding share-based compensation expense dropped to 33.1% of revenues, a sequential improvement of a 145 basis points.

On a sequential basis, revenues were up almost 4.8% and adjusted EBITDA was up almost 6.5 percent. On a year-to-date basis, net income and earnings per share are down slightly from last year due to the new accounting treatment for stock options and an increase in depreciation expense resulting from our ongoing capital expenditures programs. The quarter was pretty straightforward in that it did not include much in the way of one-off or unusual activity other than continued application of the new accounting rules related to share-based compensation expense.

 Copyright © 2005 CallStreet

callstreet

raw transcript

Now, we will talk about our segment performance starting with consumer. Consumer segment experienced a strong quarter led by growth in wireless, video and data revenues. Consumer revenues were up 9.6% over the prior year and almost 3.7% on a sequential basis. Wireless video and data revenue increases overcame a slight decrease in voice revenues on a year-over-year basis. The gross margin percentage was up slightly from the year ago quarter and decreased a 140 basis points sequentially. A few of the more significant metrics for the consumer segment for the quarter included an increase of 1,000 cable modems, 1,200 local service lines converted to our own facilities, an additional 2,600 HD/DVR converter boxes deployed. These and other related metrics are detailed in the attachment to the press release.

Consumer EBITDA excluding share-based compensation expense totaled 8.39 million for the quarter as compared to 7.23 million a year ago and 8.34 million in the prior quarter. The increase compared to a year ago was in spite of an increase in bad debt expense resulting from depletion of the remaining MCI credit during the prior quarter and was driven by an increase in revenues and a decrease in SG&A cost as a percentage of consumer revenues.

Commercial. Second quarter revenues were down at 1.5% versus the same quarter of 2005 and were down slightly on a sequential basis. Wireless and video revenue growth did not quite compensate for the anticipated decline in commercial voice revenues as compared to a year ago. The decline in revenues on a sequential basis was due primarily to a decrease in data revenues during the current quarter. As expected, we are beginning to see some of the traffic move off of our fiber system that runs along the oil pipeline to the North Slope. This transition is expected to put pressure on our commercial revenues over the next year or so.

The commercial gross profit margin declined a 238 basis points compared to the prior year quarter and 472 basis points sequentially. The decline was partially due to increases in inter-state access charges, as well as the decline in our North Slope fiber revenues. Selling, general and administrative costs excluding share-based compensation expense as a percentage of revenues increased to 124 basis points compared to the second quarter of last year, but declined 77 basis points sequentially. The combination of the decrease in revenues and margin, the increase in SG&A expense and an increase in bad debts primarily due to the end of the MCI credit led to a 22% decline in commercial EBITDA as compared to the prior year quarter. But for the improvement in SG&A cost, the same factors contributed to a sequential decrease in EBITDA.

Notable commercial metrics include an increase during the quarter of 200 cable modem subscribers, 2,600 commercial video subscribers and an additional 100 local service lines move to our own facilities. We added a combined 2,800 commercial and consumer wireless subscribers during the quarter. And, at quarter's end, we had a total of 22,900 wireless subs.

Network access services. The network access business enjoyed a very strong quarter. Revenues were up more than 12.1% over the prior year and were up 9.4% sequentially. The gross margin percentage was down slightly versus the prior year quarter due to anticipated scheduled rate reductions that was up almost 200 basis points sequentially due to operating leverage. We carried 331.5 million network access minutes during the second quarter representing an increase of more than 22% over the prior year quarter. Network access minutes were up more than 15% sequentially.

EBITDA increased by approximately 2.8 million or 13.9% over the prior year quarter, an increase by $3.3 million or 16.7% on a sequential basis. Our average rate per minute for all of our long distance traffic totaled 8.88 cents per minute compared to 9.4 cents per minute a year ago and 9 cents per minute in the prior quarter. The decrease from the prior year is largely due to a rate decrease effective the 1st of this year while the sequential decrease is due primarily to the seasonal change and the traffic mix.

Managed broadband. Managed broadband revenues were down 5.7% compared to the year ago quarter, but were up 6.4% on a sequential basis. Revenues for the second quarter totaled 6.6 million as compared to 7 million in the same quarter of the prior year and just over 6.2 million in the prior quarter. Quarterly EBITDA was up $625,000 as compared to the year ago quarter and was up approximately $317,000 on a sequential basis. Reductions in SG&A costs and bad debt expense more than compensated for the reduced revenues as compared to the prior year. Rate compression experience during our last renewal cycle is putting downward pressure on revenues which we are working to mitigate through sales of additional services.

Other items of interest. Legal and regulatory, our efforts on the legal and regulatory front continue to be focused primarily on negotiating inter-connection agreements with the incumbent carriers in the service areas in which we obtained authority to provide local service. We are also continuing to work through the process to gain approval from the FCC to close our pending acquisition of a majority interest in Alaska DigiTel.

Stock repurchase program. Our stock repurchase program continued during the second quarter and upto the black-out period. Year-to-date, we have acquired slightly more than 2.173 million shares at an average cost of approximately $11.81 per share for a total of $25.68 million. Since our last conference call, we have acquired almost 1.3 million shares at an average cost of $12.13 for a total of approximately $15.5 million. Of that amount, 3.8 million was spent after June 30th and is therefore not reflected in the second quarter financial statements. Subsequent to the date, the Board authorized stock option exercise proceeds to be utilized for share repurchases. We have realized approximately 5.5 million in option proceeds to be dedicated to that purpose. We are currently cleared to purchase upto an additional $15.2 million worth of shares through year-end plus proceeds we may realize from option exercises subject to market conditions, available resources and continued financial performance by the company. In the event we don't purchase the full amount authorized, it is likely that the remaining funds will be carried forward for purchases in subsequent periods.

Guidance and economic prospects. Last quarter, I mentioned that we had expected that our second quarter revenues would total 112 to 114 million and our adjusted EBITDA would exceed the 37.1 million that we recorded in the first quarter this year. Second quarter revenues surpassed the high range of our guidance by 4.2 million and adjusted EBITDA surpassed the first quarter by almost 2.4 million. The first two quarter's results along with our current expectations for the Alaska economy allow us to reaffirm our guidance for the full year with revenues expected to total 450 to 460 million and adjusted EBITDA expected to total 150 to 154 million notwithstanding BP's recent announcement that they are shutting down the Prudhoe Bay oil fields for pipeline repairs.

Liquidity and capital expenditures. We ended the second quarter with more than 45 million in cash on-hand and just over 50 million available to draw under our revolving facility. Our senior facility will require only 1.6 million in principle amortization during the next 12 months. We don't currently expect to draw down our facility during 2006 as we expect to continue to generate free cash flow during the year most of which will likely be used to continue our stock repurchase program. Depending on timing, we may use the facility to fund our pending purchase of an interest in Alaska DigiTel.

We invested approximately 23.9 million in capital expenditures during the second quarter. Investments were made in the following areas: for our business lines primary cable modems and set-top boxes, 3.5 million; for broadband and other, 2.7 million; for IT projects, 4.8 million; for support of our network, 4.4 million; for product management, including local services initiatives, 4.8 million; and, for other administrative support, including inventory, approximately 3.7 million.

Capital expenditures requirements beyond approximately 25 million per year and maintenance capital are largely success-driven. We expect the capital expenditure's run rate for the second half of the year to-pick up a bit and that we spent at an annualized rate of approximately 77.2 million

raw transcript :callstreet

callstreet
raw transcript

during the first half of the year. Our capital requirements for all of 2006 remain unchanged from last quarter's guidance of approximately 85 million.

To recap our cash sources and uses for the first six months on a simplified basis, we generated approximately 76.6 million in adjusted EBITDA. Out of that, we spent about 38.6 million in capital expenditures and 18 million in interest expense which left over 20 million available for stock repurchases and other items. The interest rate on approximately 318 million of our 477 million in debt is fixed. Our cash interest expense at current rates on our existing facilities is now running at approximately 34.7 million per year compared to the last two quarter's annualized cash flow of approximately a 153 million. Our cash interest coverage is approximately 4.4 times and our leverage at quarter's end on net debt is 2.82 times cash flow. On gross debt, our leverage is 3.12 times.

In conclusion, we met our revenue and cash flow guidance for the first half of the year and we are well positioned to meet expectations for the remainder of the year. We are pleased with what we have accomplished so far this year, but there remains much to be done.

We will now be happy to answer your questions.

Operator: [operator instructions]. One moment for the first question.

QUESTION AND ANSWER SECTION

Our first question comes from Anthony Klarman of Deutsche Bank. You may ask your question.

<Q – Anthony Klarman>: Thank you. A couple of questions. First, just I guess to clarify, sounded like you reiterated your guidance, but we are still assessing what impact if any BP's decision to shutdown part or all of the Prudhoe Bay Pipeline project. Have you assessed what type of impact that might have if any? You know, maybe would spur more telecommunication minutes or have you been able to point to anything that would lead you to indicate that it might cause some drop-off in any of your business categories?

<A>: I think it's much too early Anthony to tell what the impact of it is going to be. They can't even figure out what they are doing. This morning's headlines are that maybe they don't have to shutdown the whole field, maybe they are only going to shutdown part of the field, could be – I mean, we are assuming it's more than a matter of weeks. But, months, how many months. The principle issue from direct impact on the state's economy would be spending by the state government. And, fortunately, with oil prices having run as high as they are, it looks like the state government has more than ample liquidity to maintain its current budget and spending rate for probably about a year before it really gets into any kind of liquidity crunch as a result of the Prudhoe Bay revenues. I would anticipate that the efforts to repair this would have reduced – would create increased economic activity in the state, not reduce the economic activity. It may have some collateral effects on the politics surrounding the pipeline decision. But, I don't see anything at this point that suggests a near-term adverse impact on our operations or the level of the state economy in the near-term. And, I am skeptical would there really be any material layoffs, there maybe some job rearrangements on the Slope as people move from production activities to repair activities. But, I just don't see any downturn as a result of that in the next 12 months.

<Q – Anthony Klarman>: Okay. On the cable telephony side and the conversion process, what's really the issue there? For a while, it sounded like maybe it was to find the equipment particularly for the MDUs I guess in anchorage and then it sounded like you at least got in part of that alleviated last quarter. But, what's really leading to the sort of the slowdown or the conversion rate being slightly slower than expected?

<A>: I think there are three things happening that are effecting the turn-up of facilities on our own plant. Number one is a delay in the upgrades of the outside plants that we need to complete before launching the telephony on that section of the plant. The second is the delay of new markets which, I will come back to that and the third is actually a reduction in the absolute number of local lines. In the near term, the most significant is the delay and the turn up of the outside plant that comes from a combination of factors including our shift late last year, early this year from external line units to internal line units. And when we did that, we reassessed the plant construction and the plant focus plans and actually delayed some of the engineering releases for this year's plant which means that the plant is coming on a little later than anticipated.

We also shifted our focus as to which markets we were going to do ACS filed a petition for preemption of its obligation that will provide units and anchorage and in part in preparation for any downside risk there, we shifted resources of away from the Fairbanks, and general markets and back to the anchorage markets. But, because of some bandwidth upgrade issues, we wound up taking longer than anticipated to upgrade an equivalent number of nodes and anchorage. So, we are seeing those nodes to come on more slowly. And I think the net effect that it's going to be late in the year before we have as many available nodes as we would like to make the conversions, that's going to impact the overall conversion process for the year, because realistically we can do 500 to 600 conversion a year by not having the plant or 500 to 600 conversions a week, I am sorry. By not having the plant available already to run that 500 to 600 pays we are loosing days, where we really can't recovery that amount of conversion production, and when the plant gets delayed that just has the impact of mitigating the total number that we can do this year. Some of that may

 Copyright © 2004 CallStreet

callstreet raw transcript

result in some catch up next year, some of it maybe permanently pushed out just because of the long run conversion rate.

Our original anticipation for this year also included the expectation that we would be up in operating in several new markets in the third quarter due to delays mostly in getting interconnection agreements, its going to be very late in the year before we are up in operating in two new markets, which have approximately 25,000 lines that we'll addressing with our own facilities. Now we'll have to gain share in those markets, but obviously that won't show as any line gains on our own facilities this year, and we originally had anticipated that it would. So, I think that sort of covers the issue there. The MDU problem has largely been solved, the new MDU boxes work. We've encountered some additional belay is getting noise out of the network to turn up in nodes that have high concentration of MDUs, but I think that sort of covers the delayed awareness to what happened there.

<Q>: What has been the customer response at this point, has there been any appreciable notice or difference in churn or any of the other customer satisfaction statistics you might be able to say?

<A>: We are not seeing any change from what we had experienced with the outdoor units which is that we have higher reliability lower meantime to repair and slightly lower churn on customers on our own facilities as opposed to customers on the facilities the other guy and slightly better voice quality.

<Q>: Okay. Finally, wireless, could you just update us on, you know, your wireless strategy, obviously you've got a resale arrangement in Dobson, with Dobson, how was that going, do you feel it's kind of adding a lot to the bundle and you know, just remind us again of the strategy with respect to Alaska digital, you know, is that kind of the hedge against ultimately being able to own something up there in Alaska out right with respect to Dobson and Dasa [ph]?

<A>: I think you summarized it pretty well and I would just add that we are happy with the Dobson relationship and we think its proceeding well.

<Q>. But, do you feel in any that I guest has using Dobson's GSM product as part of the bundle, it helps to accelerate growth or contributed to customer retention in a way that you didn't have previously.

<A>: Yeah, I think it's a very important part of the bundle we are now offering a bundle that includes mobile service only through wireless, so you can buy a video high-speed data and wireless only. You don't have to have a fixed local line any more. The one thing I left out when I was talking about the facilities conversions was that we are seeing a shrinkage in the three mid global markets we are in today, Anchorage, Fairbanks and Juneau, a shrinkage about 8000 lines a year across the market and total usage of wired lines, since we've got about half of the market that means about half of that about 4000 lines a year on a wired side are really shrinking on our side. Most of that represents wireless migration and wireless substitutions. So, we are very pleased that our wireless product that allows us to address those customers and adoptions filling that niche very well.

<Q>: Okay. Thank you.

<A>: Sure, Anthony.

Operator: Our next question comes from Will Peters [ph] of Oppenheimer Company. You may ask your question.

<Q>: Great, and thank you. For question would be you know, you mentioned that you know, the we are [indiscernible] as commercial customer, if I get – the guidance is relatively unchanged, so let's assume there is better strengths in the remainder of business, if I can comment on that that would be great? Thanks.

<A>: Yeah, in obviously, you know, when you have to recover, I think the ultimate run rate it's going to be something like 10 million bucks we are actually loosing the customer what we are doing as we are scaling back the revenues that we are receiving from that customer and substituting from other services to a contractor who is going to be the primary carrier although that you have remaining services that are being transferred. But yeah, we have got to overcome an ultimate shrinkage in that area of the 10 million a year. It's going to happen overtime, but we think that the growth and the remainder of the current commercial business will compensate for that. You know, we are not projecting any decreases and overall companywide revenue is going forward. So, we think we have enough initiatives working to compensate for that.

<Q>: Okay. So, you didn't lose that customer, we would have made the [indiscernible] increase in guidance then, am I understanding that right?

<A>: Yeah, that is right. That's one of the reasons that we didn't see a big improvement and cash flow from what you might have expected this year versus last years because we bake that into the projections.

<A>: Yeah, I think worth noting that the loss of this customer was cooked into the guidance for the year at the start of the year as well the timing of the turndown was uncertain and we were speculating a little better as to exactly when that was going to occur or low our speculations were not far off the mark. But I think it's speaks to the strength of the underlying business both the commercial and the rest of the business that we can absorb over the course of the next year a $10 million revenue hit and continue to grow the revenues as well as we are growing and believe that spoken in the past about headwins and we knew we are going to have one with this customer. And I think your point is correct that shows that there is good lying – good underlying resiliency in the rest of the business.

<Q>: Okay. And final question here on the buyback, is there a particular price when you have stopped buying that, I mean sales in the – a level where you'll just tend to see our company, where is the project modify that to less growth areas, to less than investment opportunity is would be at that point and just the whole thing? Thanks.

<A>: I am sure there is a price at which we start buying back. It will open tomorrow morning at 25. We might pause the buyback program a little bit but we adjust and evaluate the price as we go. We obviously I think the company undervalued at the present time and we would like to be the long run owners, so we are continuing the repurchase I think that's a continuous reevaluation based on both the trading multiple and the float levels.

<Q>: Great. Thank you very much.

Operator: The next question comes from Ari Moses of Kaufman Bros. You may ask your question.

<Q – Ari Moses>: Hi guys, good afternoon. Couple of things. First John, just a followup on the discussion of this loss customer. I think you talked in the press release that the number was still around 9, 9.5 million of loss revenues. But, we think that's a net number, you know, netting out I guess will you expect to recoup in return by leasing some facilities to the new provider, can you tell us what the gross number on that was?

<A>: No.

<Q – Ari Moses>: Okay. Fair enough, it tells me the answer.

Copyright © 2004 CallStreet

callstreet raw transcript

callstreet raw transcript

<A>: I've given you what you need to know Ari.

<Q – Ari Moses>: Okay. As far as the business, I think you sort of alluded to as you talked and much of these were connected. We talked about kind of a slow down on sale of Norseld fiber, you know, a) was this along that line and b) are there any other customers here that you see kind of in the near term at risk of loosing revenues in the similar manner to this one?

<A>: I think, I would give that one another no too.

<Q – Ari Moses>: No, is in, no, you are not going to answer or no is that don't know.

<A>: No, we don't foresee any other similar situations, you know, occurring that I can think off and when we view that Norseld fiber are very important asset and we do see lot of continued demand for additional services on that fiber root. So...

<A>: This was a issue that was not a surprise to us, we've been working this for a long time and quite frankly what happened was that a competitor was willing to invest a substantial amount of capital at a much lower rate of return. Then we felt we could justify and use that to try away a piece of the business from us, from this one particular customer who had a unique requirement that needed some additional capital expenditure. And we didn't see due to the upside or couldn't get comfortable with the hurdle rate on the capital required so we lost our position as prime contractor. Our assets going to be redeployed at a lower revenue stream to us, but still providing service to that customer but it'll be as a subcontractor to the new prime, who either has [inaudible] capital or a different business line.

<Q – Ari Moses>: Got it. Turning to just for a second to the DOPS model, what is the impact on the business if any in the slowdown with that migration I mean I know a large part of it was the access line savings, you know, from the lease lines. So, from that cost savings perspective, I guess that slowed but is there any broader impact on the business, I don't believe there's one on the revenue line, but if you can kind of highlight you know, direct-indirect impacts from that slowdown. And just tied into that, Ron you mentioned the 500-600 conversions per week, my guess is that's kind of an average but when you start hitting at the end of the year, when you expect to kind of be back on track with it, that you run into the winter month issue in terms of construction and how those you know, how that might tie into that slow down as well?

<A – Ronald A. Duncan>: Actually the conversions, once the plant is upgraded or not terribly seasonal, but plant upgrades themselves are seasonal. So, having nodes where you can make the conversions is what today is the pacing factor. You can do the actual conversions of the individual homes pretty much here on affect, last year our conversions peaked in the fourth quarter because we had the maximum amount of plant available. I think we'll probably see a similar sequence again this year because it's going to be – you got to make the upgrades in the field, do the line work during the summer months and then whatever you manage to get converted provides an available pool of or whatever you manage to get upgraded provides an available pool of convertible lines that you can work on until you reduce that pool down to zero which points you have to wait for another construction season to have the appropriate outside plant upgraded. We should have almost all of our outside plant in the Anchorage, Fairbanks, Juneau markets upgraded by the end of next year. So, by the end of next year almost all of those three markets should be addressable on our own facilities now it's easier to address the consumer-customers though there is the commercial customers just to the nature of that plant, but that problem in terms of the addressable market should largely go away by the end of next year. The impact is that when you don't get the cost savings from conversions to your own facility to keep your EBITDA growth going, you've got to find other sources. So far we've managed to do that, you could assume had we not had the slowdown in DOPS conversions, you could assume either that we'd have more rapid EBITDA growth or that our focus wouldn't have been as keen on some of the other areas where we have extracted the growth and you would have substituted one for another. But the net answer is the company's stayed on plan by finding other opportunities to keep the growth coming in. We're not adjusting the guidance and the DOPS conversions become part of subsequent increases rather than today's increases.

<Q>: Got it. Great, thanks.

Operator: The next question comes from Liam Burke with Ferris Baker Watts, you may ask your question.

<Q – Liam Burke>: Thank you. Ron I know managed broadband is a smaller PC revenue, but it looks like you're having rate decreases, it's a fairly specialized service. You are seeing pricing pressure there and what are your client's alternatives?

<A>: There is pretty intense competitive pressure in that business. Both AT&T and to some extent individual standalone data satellite providers are competitors for that business. Occasionally, LEC becomes a competitor for that business. We have the vast majority of that business. We probably got a 80% plus share of the school access and telehealth market in rural Alaska which is what that business is. And, we have had to keep increasing capacity and reducing prices to sustain that business. We have done a relatively good job of sustaining it. But, it's not a revenue growth sector in the current environment because it does see significant price pressure [indiscernible] and by expanding the options that are available to our customers in terms of both the technology and some of the software application issues. It's not going to provide a huge growth stream going forward like it has in the past. But, I think it's a very healthy cash flow stream that we will manage to sustain at a slow rate of decrease.

<Q – Liam Burke>: Thank you.

Operator: Our next question comes from Jonathan Schildkraut of Jefferies. You may ask your question.

<Q – Jonathan Schildkraut>: Hello. Thank you for taking the questions. A couple of questions. First, if the company can talk a little bit about margin performance? Margins expanded this quarter and it looks like you are on a better run rate than you were over the first half of last year which is encouraging particularly in light of the fact that you haven't been able to convert as many customers onto your own DLPS platform as you had hoped for. What's driving the margin expansion? And, you know, as we look out into the future, you know, how can we think about where these margins might be able to go?

<A>: Good question. I think the widening that you are seeing is – continues to be, you know, driven by the increased traffic that we are seeing on our owned facilities. A little bit of that as you mentioned is the DLPS, is we are moving more and more lines to our own facilities. Obviously, that didn't have a big effect this quarter. But, a lot of it is I think I alluded to some operating leverage on the network access platform. We are carrying increasing – significantly increasing amounts of traffic on that. And, if we have got the facilities in place to carry that, the variable costs start to shrink. The fixed costs are spread over more minutes. So, you know, you see improvements in operating leverage.

In general, we are still faced with continued pressure on the revenue side. So, it's kind of an unexpected surprise when you see a widening in the margins from one quarter to the next. I think we are going to continue to see pressure on the revenue side. To the extent we can continue to drive more traffic on the network, that's going to mitigate some of the pressures on the revenue side. So, it's certainly not an exact science, it kind of as you have noticed probably a little bit it's kind of like a pendulum, it kind of swings back and forth a little bit. But, fortunately, it looked good for this particular quarter, and I am hopeful that we will continue in the seasonally strong third

callstreet raw transcript

quarter. We will see what happens as we get further down the road. But, it's a continuing struggle to try to grow those margins.

On the G&A side, you know, seeing the G&A cost shrink as a percentage of revenue is partly due to the benefits of growing revenues. The nominal amount of G&A costs, they are still escalating. Not as bad when you back-out the non-cash stock compensation expense. But, we are still struggling in that area with increasing benefits costs and so on. So, you know, we have got pressures in the G&A side too.

<A>: That said, I think that our expectation is, as we move more and more of our operations onto our own facilities and, you know, today, we are still two-thirds on the other guy's facilities and one-third on our own and over the next two to three years we hope [indiscernible] proportion. As we move onto our own facilities, as we increase the utilization of those facilities and as we continue to see increases in average revenue per customer. I mean, we are continuing to see the average customer spend go up. Cable modem average revenues climbed in the last quarter as we sell more bandwidth. The incremental variable cost of that additional bandwidth is small relative to the average revenue increase. So, those all drive gradually improving margins. I wouldn't want to leave you with the impression that we don't think the long run trend for margins continues to march up. I think we have said in the past that we think in the long run we ought to be approaching something in the quarter of a 40% overall EBITDA margin for the business after we are converted completely to our own facilities and addressing the new markets. So, it's steady progress towards that goal of delivering everything on your own facilities. I think John's comments highlight the – it's two steps forward, one step back because you make key improvements in the underlying cost structure and you get things deployed on your own facilities, but you are walking against or running against the headwind in the form of rate compressions or occasionally something like this quarter's contract loss.

<Q – Jonathan Schildkraut>: Understood. Can we talk a little bit about CapEx? I know that you mentioned in your prepared comments that CapEx relative to the first half would accelerate in the back half of this year. I am just wondering about the impact of the DLPS rollout as it applies to the capital spend. I just have two questions. One, is the shift towards more CapEx in the back half of the year have to do with some of the delays that you mentioned? And, two, is the total aggregate amount of capital that you planned on spending on the infrastructure for the conversion the same, are you finding that you need to spend more money in order to accomplish the same amount?

<A>: I think what we are finding on DLPS is that, and on the conversion to our own local facilities is that the spend level is lower. One of the reasons we move from the outside to the inside powered units was a significant reduction in overall cost of deployment, as well as in the long run an increase in the speed of that deployment in the new markets by not having to wait as long for as extensive a plant's upgrade. I think what you will see this year when we get to the end of the year is that we are probably going to under-spend our $25 million DLPS local services capital budget perhaps by a [indiscernible]. The portion that isn't spend there will go to other projects. That's part of how we are mitigating the delay and realizing the benefit of the DLPS facilities is that we are spending that money on other projects that are generating return. So, while the general guidance is 25 million or so a year on the local facilities, I think we will probably be significantly below that this year. We will build that portion of the CapEx budget with some projects, including planned expansion and some data upgrades and things like that that generate other incremental revenues allowing us to sustain the targeted growth metrics. And, then, I would anticipate coming back much closer, maybe going over a little bit on our generalized target of 25 million for local facilities next year.

We originally had expected to turn-up three or four or five new markets this year. We are going to as a result of delays in the regulatory process be able to turn-up two new markets by the very end of this year. We are still anticipating turning up about 10 new markets next year. That shouldn't be a problem from the constructions perspective, but it is posing significant challenges from the

Copyright © 2004 CallStreet

callstreet raw transcript

perspective of getting all of the inter-connection elements in order so that you can actually carry traffic in those markets. So, that's some of what's happening there.

<Q – Jonathan Schildkraut>: Right. That make sense. Last question on option exercises during the quarter, just as Peter said, there were a number of option exercises during the quarter. Obviously, we don't have the full Q yet. But, I was wondering if you might comment on whether the activity in the quarter was anything unusual or just pretty much steady as she goes?

<A>: Yeah. I think it was unusually heavy due to I think the stock price. I think when the stock price, you know, spikes up, that motivates a lot of folks to monetize their options and we saw that happen in the first half of the year. So, if you look at option exercises this year versus last year, it's up dramatically. I think that the gross proceeds since around February of this year was slightly over $5 million. I think for the [indiscernible] we are looking at gross proceeds of 5, 6 million versus a year ago. I think they were less than a million during the same time period. So, a significant spike, and I think that will settle out as the folks get used to the higher stock price. Part of it I think too is some options that wee coming up for expiration that needed to be exercised before they expired. So, unusually, high activity. Whether it will continue or not, I think not. I think it will probably slowdown and normalize.

<Q – Jonathan Schildkraut>: All right. Thank you very much for taking the questions.

Operator: That was our last question.

<A>: Okay. Let's give it another minute and see if anybody has any last minute questions.

Operator: [operator instructions]. One moment, sir.

Company Representative

Minute is up. I think that will wrap the call then if there is no more questions, and thank you very much for participating. We appreciate your interest.

Operator: Thank you for your participation, your call has ended. You may now disconnect.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2005. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

Exhibit B

REDACTED FOR PUBLIC INSPECTION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as Amended, for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, And for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska, Incumbent Local Exchange Carrier Study Area	)))))))))	WC Docket No. 06-109

STATEMENT OF HOWARD A. SHELANSKI IN SUPPORT OF REPLY COMMENTS OF ACS OF ANCHORAGE, INC.

1. This statement addresses several economic arguments found in General Communication, Inc.'s ("GCI's") Comments filed in response to ACS's non-dominance petition.[1] I first discuss the statement of Alan Mitchell, GCI's economic analyst for this proceeding, and explain that his analysis is unsupported and irrelevant to an assessment of facilities-based competition in Anchorage. Second, I describe why technological alternatives affect competition even if they might not be fully implemented for two years.

2. GCI's Comments includes an analysis estimating the number and percentage of residential and commercial building locations in the Anchorage Study Area that GCI can serve using its own facilities.[2] GCI does not provide any benchmark by which to measure the reasonableness of the assumptions used in the calculation of these estimates. Specifically, GCI's

---

[1] *Comments of General Communication, Inc. on ACS of Anchorage's Petition for Forbearance From Certain Dominant Carrier Regulation of Its Interstate Access Services and from Title II Regulation of Its Broadband Services*, WC Docket No. 06-109 (filed Aug. 11, 2006) ("GCI Comments").

[2] Exhibit 1, attached to Declaration of Alan Mitchell ("Mitchell Decl."), attached as Exhibit A to GCI Comments.

REDACTED FOR PUBLIC INSPECTION

analysis fails to support the basis for the 80-foot distance of properties from GCI facilities and the correlation between the average assessed building value per line and the actual distribution of lines among the parcels.

3. In his statement, Mr. Mitchell states that GCI selected 80 feet as the limit for which parcels of land that GCI considers to be potentially reachable using its facilities.[3] GCI's only justification for selecting this value is that "it captures virtually all locations that are located on a street that has GCI facilities, as well as all locations on either side of a lot line along which GCI has facilities."[4] Mr. Mitchell provides no technical or economic justification for choosing 80 feet as a relevant measure. Meanwhile, he acknowledges published research demonstrating that drop lengths for cable plant can be as long as 400 feet.[5] Mr. Mitchell claims consistency with that study because it finds that drops are "typically less than 150 ft."[6] But there is a lot of ground between 150 feet and 80 feet; and Mr. Mitchell does not provide any data to support the assumption that a distance of 80 feet reasonably corresponds to the industry-recognized lengths for cable plant drops. He claims that 80 feet is reasonable because that is only the distance from a GCI facility to a lot line, and that actual drop lengths will be longer because they include the distances from lot lines to buildings served.[7] Mr. Mitchell provides no data, however, on the additional distances from lot lines to buildings in his sample. Further, while he acknowledges that cable drops can be as long as 400 feet, his analysis fails to recognize that the 80-foot cutoff could exclude parcels that fit well within that parameter.

---

[3] Mitchell Decl. ¶ 3.

[4] *Id.*

[5] *Id.* at ¶ 5.

[6] *Id.*

[7] *Id.* at ¶ 4.

REDACTED FOR PUBLIC INSPECTION

4. Indeed, one cannot tell from Mr. Mitchell's analysis what the actual drop lengths are for the properties he examines. The only actual figure he provides is 80 feet as the cutoff for parcels that are considered "near" GCI's facilities. Mr. Mitchell offers no economic or technical justification for choosing that 80-feet figure, however. Such justifications are necessary if his analysis is to be credible. Moreover, there is no way to know from his declaration or data what would happen to his results if he assumed larger distances than 80 feet. Without access to the studies and maps to which Mr. Mitchell refers, it is impossible to understand the sensitivity of the calculation to changes in the distance. Such sensitivity analysis is very important. If longer drop lengths that are still consistent with those typical in the industry would make significant differences in GCI's ability to serve customers, then Mr. Mitchell's results say nothing about GCI's true capabilities.

5. Additionally, there is no economic or scientific basis for GCI's classification of parcels as either residential or commercial based on a cutoff value determined by the average building value per switched business line. Mr. Mitchell does not provide an average, mean or any other benchmark to determine whether the **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** value[8] actually reflects a reasonable estimate for a "small business" or "medium/large business" parcel.

6. Further, Mr. Mitchell does not provide any sensitivity analysis on how the estimated number of locations "near" its facilities would change if parcels he classifies as small businesses based on his arbitrary cutoff value were actually large businesses. Because Mr. Mitchell only assumes that a small business location can be served if it is "near" its cable facilities, but not its

[8] *Id.* at ¶ 10.

fiber facilities, the analysis could potentially exclude a number of locations that could be served using fiber facilities. Without such a sensitivity analysis, there is no way to evaluate the reliability of GCI's estimated number of locations "near" its network.

7. The flaws in Mr. Mitchell's methodology are further magnified when considering that some locations could be served by alternative facilities, such as its fiber or wireless local loops. Mr. Mitchell asserts that "fiber is not an economical service method for residential and commercial buildings with less than eight lines."[9] However, GCI does not provide any cost data to support this claim. While Mr. Mitchell claims that including residential and small business locations that are "near" to GCI fiber facilities would have a minimal impact on the number of locations potentially served over GCI's facilities,[10] without a reasonable basis to ground GCI's assumption of what is "near," this claim is meaningless.

8. Due to GCI's failure to tie its assumptions to real-world values, the estimated number of locations that GCI claims are "near" its facilities are unreliable and cannot be evaluated in an objective manner. The deficiencies in GCI's attempted analysis demonstrate that GCI's estimates are a highly imperfect and unverifiable proxy for a map of its facilities and actual customer locations identified by type and current method of facilities-based service.

9. GCI itself has submitted arguments about facilities-based competition in Anchorage that are at odds with Mr. Mitchell's analysis. In the UNE forbearance proceeding, GCI submitted far different data by economic consultant William P. Zarakas.[11] Mr. Zarakas engaged

---

[9] *Id.* at ¶ 11.

[10] *Id.* at ¶ 11 n.12.

[11] Declaration of William P. Zarakas, *Opposition of General Communication, Inc. to the Petition for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications Act Filed by ACS of Anchorage*, WC Docket No. 05-281, attached thereto as Exhibit C.

REDACTED FOR PUBLIC INSPECTION

in a forward-looking analysis, examining the feasibility of GCI providing service to Anchorage customers.[12] In this proceeding, GCI relies on data that Mr. Mitchell concedes are static and fail to "represent the number or percentage of business or residential locations that GCI could serve entirely over its own facilities in a commercially reasonable amount of time."[13] Mr. Mitchell's data severely underestimates GCI's facilities-based presence in the Anchorage market and should be disregarded.

10. GCI's pessimistic estimates about the implementation of new technology to serve business customers are unavailing. GCI laments that "full commercial deployment" of industry-certified business technology is "a good two years away."[14] Even if GCI's claim is true, however, from an economic perspective a two-year window has been widely accepted as a reasonable period that does not warrant continued regulation to ensure competition. Notably, the DOJ/FTC's *1992 Horizontal Merger Guidelines* designates two years as the period in which it will consider "committed entry alternatives" in a relevant market.[15] Even if GCI waits two years before fully implementing a technology, the Commission should consider this expected deployment when assessing competition.

11. It is important to recognize that new technology need not have been fully deployed to impose competitive discipline on ACS. Customers alienated by non-competitive pricing and/or poor service would prove easy targets for competitors whose expanded offerings are imminent. ACS is thus already in the position of having to competitively defend its entire market share from rival offerings. This is not a case in which some speculative or hypothetical entrant

---

[12] *E.g., id.* at ¶¶ 5, 6.

[13] Mitchell Decl. ¶ 2.

[14] GCI Comments 15.

[15] U.S. DOJ & FTC, 1992 HORIZONTAL MERGER GUIDELINES § 3.2, 57 Fed. Reg. 41,552 (1992).

REDACTED FOR PUBLIC INSPECTION

"might" come along; in this case the entrant is proven, powerful, and well on the way to overcoming the last few hurdles GCI claims still to exist. Indeed, continued access on a favorably (to GCI) regulated basis only allows GCI to defer even longer the new technological deployment it claims to need.

Respectfully submitted,

/s/ Howard A. Shelanski

Howard A. Shelanski
334 Boalt Hall
University of California
Berkeley, CA 94720-7200

Exhibit C

August 8, 2006

John Lowber, (907) 868-5628; jlowber@gci.com
Bruce Broquet, (907) 868-6660; bbroquet@gci.com
David Morris, (907) 265-5396; dmorris@gci.com

FOR IMMEDIATE RELEASE

GCI REPORTS SECOND QUARTER 2006 FINANCIAL RESULTS

- Consolidated revenue of $118.2 million
- Net income of $5.4 million or $0.09 per diluted share
- EBITDA of $39.5 million

ANCHORAGE, AK -- GCI (NASDAQ:GNCMA) today reported net income of $5.4 million, or earnings per diluted share of $0.09, for the second quarter of 2006. The company's second quarter net income compares to income of $5.3 million, or earnings per diluted share of $0.09 in the same period of 2005.

GCI's second quarter 2006 revenues totaled $118.2 million, an increase of 6.8 percent over the second quarter of 2005. Revenue increases in GCI's consumer and network access segments were partially offset by decreased revenue in the commercial and managed broadband segments.

Second quarter 2006 earnings before interest, taxes, depreciation, amortization and non-cash share based compensation expense (EBITDA) totaled $39.5 million. EBITDA increased $3.1 million or 8.5 percent from the second quarter of 2005. Second quarter 2005 EBITDA totaled $36.4 million including the MCI credit utilized of $1.0 million.

Sequentially, revenues for the company increased $5.4 million over first quarter 2006 revenues of $112.8 million. As expected, second quarter EBITDA of $39.5 million increased from EBITDA of $37.1 million in the first quarter of 2006.

For the second quarter of 2006, GCI exceeded its revenue and EBITDA guidance. The company expected revenues of approximately $112 million to $114 million, and EBITDA in excess of $37.1 million, excluding non-cash stock based compensation expense. GCI reaffirms its guidance for revenues of $450 million to $460 million and EBITDA of $150 million to $154 million for the year 2006. Third quarter revenues are expected to range between $116 million to $118 million and EBITDA is expected to remain approximately the same as the second quarter.

"Our second quarter results were on the high side of our expectations," said Ron Duncan, GCI President. "The first half of 2006 positions us well for another record year for total revenues and EBITDA. We face challenges in accelerating the provisioning of local phone service on our own facilities. Our plant upgrades are behind schedule resulting in fewer customers to convert and it has taken longer than anticipated to turn up service in new markets. However, we are addressing these issues and by the end of this year the company expects to be very well positioned for the expansion of local service on our own facilities."

Highlights

- Consumer revenues increased to $44.2 million, an increase of 9.6 percent over the prior year and increased 3.7 percent from the first quarter of 2006. The increases were due primarily to increases in video, data and wireless sales.

- Network access revenues increased to $41.4 million, an increase of 12.1 percent over the prior year and increased 9.4 percent over the first quarter of 2006. The increase in revenues is due primarily to a 22.2 percent increase in long distance minutes carried on GCI's network for other common carriers for the second quarter of 2006 as compared to the second quarter of 2005. Minutes for the second quarter of 2006 increased 15.1 percent from the first quarter of 2006. The effect on revenues of increases in minutes for the second quarter of 2006 were partially offset by rate decreases.

- Commercial revenues decreased 1.5 percent from the prior year and 0.4 percent from the first quarter of 2006. A significant customer on GCI's fiber optic cable from Prudhoe Bay to Valdez began transition of their traffic to our competitor's microwave system in June of 2006. We expect to sign an agreement to lease capacity on our system in connection with the competitor's contract. We expect this transition to result in an approximate $9.5 million annual decrease in revenues when completed. The decrease for 2006 will be approximately one half of the expected annual decrease depending upon the pace of the transition.

- GCI has provisioned 26,400 consumer and commercial lines on its Digital Local Phone Service (DLPS) facilities at the end of the second quarter of 2006, an increase of 1,300 lines over the first quarter of 2006. Second quarter conversions were approximately 1,200 below the planned number due to delays in upgrading plant for phone service. Continued delays are expected to materially reduce total conversions for the year. GCI now expects to serve more than 35,000 lines on its own facilities by year end.

- GCI local access lines declined by 1,100 for the quarter. Consumer, network access and commercial local access lines totaled 111,400 at the end of the second quarter of 2006 representing an estimated 26 percent share of the total access lines market in Alaska. Long distance subscribers decreased sequentially by 1,100 comparable to the decrease in local access lines. The decrease in wire line customers is due to wireless substitution and a reduction in customers taking second lines.

- GCI had 82,100 consumer and commercial cable modem access customers at the end of the second quarter of 2006, an increase of 1,200 over the 80,900 cable modem customers at the end of the first quarter 2006. GCI customers continue to migrate from dial up access service to cable modem. Average monthly revenue per cable modem totaled $31.54 for the second quarter of 2006 as compared to $31.22 for the first quarter of 2006.

- Beginning May 1, 2006 and ending July 31, 2006 GCI repurchased 1,280,600 shares of its Class A Common shares at a cost of approximately $15.5 million or $12.13 per share. The company is authorized to purchase an additional $10.2 million of Class A shares by the end of the third quarter of 2006. GCI will repurchase shares depending on market conditions and the availability of free cash flows.

Consumer

Total consumer revenues increased 9.6 percent to $44.2 million as compared to $40.3 million in the second quarter of 2005 and increased 3.7 percent from the first quarter of 2006. The increase in revenue is due primarily to an increase in video, data and wireless sales.

Consumer voice revenues were relatively unchanged from the prior year and from the first quarter of 2006. Consumer local access lines in service were down 500 from second quarter of 2005 and 900 from the first quarter of 2006. GCI converted 1,200 consumer access lines to its own facilities during the second quarter.

Consumer video revenue increased 5.6 percent over the prior year and increased 1.5 percent over the first quarter of 2006. The increase in revenue is due to increasing average revenue per customer in certain markets and increases in video subscribers purchasing digital service and renting high definition/digital video recorder converters.

Consumer data revenues increased 14.8 percent over the prior year and 4.3 percent over the first quarter of 2006. The increase in consumer data revenues is due to an increase in cable modem customers. GCI added 10,700 consumer cable modem customers over the prior year and 1,000 customers during the second quarter of 2006.

Consumer wireless revenues increased substantially during the second quarter of 2006.

Network Access

Network access revenues increased 12.1 percent to $41.4 million as compared to $36.9 million in the second quarter of 2005 and increased 9.4 percent from the first quarter of 2006.

Voice revenues increased 16.3 percent over the prior year and increased 13.7 percent from the first quarter of 2006. Network access minutes increased 22.2 percent to 331.5 million minutes for the second quarter of 2006 as compared to the second quarter of 2005. Minutes for the second quarter of 2006 increased 15.1 percent from the first quarter of 2006. The effect on revenues of increases in minutes for the second quarter of 2006 was partially offset by rate decreases.

Data revenues were up 4.4 percent compared to second quarter 2005 and 1.5 percent over the prior quarter.

Commercial

Commercial revenues decreased 1.5 percent to $26.0 million as compared to $26.4 million in the second quarter of 2005 and were relatively unchanged from the first quarter of 2006. A significant customer on GCI's fiber optic cable from Prudhoe Bay to Valdez began transition of their traffic to our competitor's microwave system in June of 2006. We expect to sign an agreement to lease capacity on our system in connection with the competitor's contract. We expect this transition to result in an approximate $9.5 million annual decrease in revenues when completed. The decrease for 2006 will be approximately one half of the expected annual decrease depending upon the pace of the transition.

Increases in video and wireless revenues were offset by decreases in voice and data revenues when compared to the prior year.

GCI converted 100 commercial local access lines to its own facilities during the first quarter.

Basic commercial video customers, as expected, increased by 1,800 subscribers from the prior year and increased by 2,600 subscribers from the first quarter of 2006. Commercial video customers are primarily hotel video customers.

Managed Broadband

Managed broadband revenues totaled $6.6 million in the second quarter of 2006, a decrease of 5.7 percent from $7.0 million in the second quarter of 2005 and an increase of 6.4 percent over $6.2 million in the first quarter of 2006. The decrease from the prior year quarter is due to fewer multi-site SchoolAccess customers and a decrease in rates charged for certain services provided to rural health customers. The increase from the prior sequential quarter was due to the sale of new services and circuits to rural health customers.

Other Items

Total selling, general and administrative expenses (SG&A) increased 7.0 percent to $40.7 million as compared to $38.0 million in the second quarter of 2005 and increased 2.7 percent from the first quarter of 2006. The increase was due primarily to share-based compensation expense from the adoption of a new accounting rule on January 1, 2006. SG&A expenses are recorded by segment using a combination of direct charges and an allocation based on prior year gross margins by segment.

During the second quarter of 2006 GCI's capital expenditures totaled $23.9 million as compared to $14.9 million in the first quarter of 2006.

GCI will hold a conference call to discuss the quarter's results on Wednesday, August 9, 2006 beginning at 1 p.m. (Eastern). To access the briefing on August 9, dial 800-369-2012 (International callers should dial 210-234-0006) and identify your call as "GCI." In addition to the conference call, GCI will make available net conferencing. To access the call via net conference, log on to www.gci.com and follow the instructions. A replay of the call will be available for 72-hours by dialing 866-415-2337, access code 7461 (International callers should dial 203-369-0682.)

GCI is the largest telecommunications company in Alaska. A pioneer in bundled services, GCI provides local, wireless, and long distance telephone, cable television, Internet and data communication services throughout Alaska. More information about the company can be found at www.gci.com.

The foregoing contains forward-looking statements regarding the company's expected results that are based on management's expectations as well as on a number of assumptions concerning future events. Actual results might differ materially from those projected in the forward looking statements due to uncertainties and other factors, many of which are outside GCI's control. Additional information concerning factors that could cause actual results to differ materially from those in the forward looking statements is contained in GCI's cautionary statement sections of Form 10-K and 10-Q filed with the Securities and Exchange Commission.

# # #

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands) Assets	(Unaudited) June 30, 2006	December 31, 2005
Current assets:		
Cash and cash equivalents	$ 45,686	44,362
Receivables	80,731	78,279
Less allowance for doubtful receivables	5,550	5,317
Net receivables	75,181	72,962
Deferred income taxes, net	20,801	19,596
Prepaid expenses	6,286	8,347
Inventories	2,881	1,556
Notes receivable from related parties	2,685	922
Property held for sale	2,315	2,312
Other current assets	5,938	2,572
Total current assets	161,773	152,629
Property and equipment in service, net of depreciation	434,847	453,008
Construction in progress	24,306	8,337
Net property and equipment	459,153	461,345
Cable certificates	191,565	191,565
Goodwill	42,181	42,181
Other intangible assets	7,813	6,201
Deferred loan and senior notescosts, net of amortization of $1,953 and $1,451 at June30, 2006 and December 31, 2005, respectively	7,509	8,011
Notes receivable from related parties	84	2,544
Other assets	8,143	9,299
Total other assets	257,295	259,801
Total assets	$ 878,221	873,775

(Continued)

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Continued)

(Amounts in thousands) Liabilities and Stockholders' Equity	(Unaudited) June 30, 2006	December 31, 2005
Current liabilities:		
Current maturities of obligations under long-term debt and capital leases	$ 1,894	1,769
Accounts payable	26,640	23,217
Deferred revenue	15,139	16,439
Accrued payroll and payroll related obligations	13,176	17,925
Accrued interest	8,703	9,588
Accrued liabilities	6,759	6,814
Subscriber deposits	408	361
Total current liabilities	72,719	76,113
Long-term debt	473,360	474,115
Obligation under capital lease, excluding current maturity	1,192	-
Obligation under capital lease due to related party, excluding current maturity	597	628
Deferred income taxes, net of deferred income tax benefit	77,955	69,753
Other liabilities	12,146	9,546
Total liabilities	637,969	630,155
Stockholders' equity:		
Common stock (no par):		
Class A. Authorized 100,000 shares; issued 51,568 and 51,200 shares at June 30, 2006 and December 31, 2005, respectively	177,108	178,351
Class B. Authorized 10,000shares; issued 3,380 and 3,843 shares at June 30, 2006 and December 31, 2005, respectively; convertible on a share-per-share basis into Class A common stock	2,855	3,247
Less cost of 290 and 291 Class A and Class B common shares held in treasury at June 30, 2006 and December 31, 2005, respectively	(1,723)	(1,730)
Paid-in capital	17,856	16,425
Notes receivable with related parties issued upon stock option exercise	(1,279)	(1,722)
Retained earnings	45,435	49,049
Total stockholders' equity	240,252	243,620
Commitments and contingencies		
Total liabilities and stockholders' equity	$ 878,221	873,775

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Amounts in thousands, except per share amounts)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues	$ 118,220	110,665	231,042	217,175
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	38,598	36,045	74,782	71,245
Selling, general and administrative expenses	40,667	38,019	80,281	75,199
Bad debt expense (recovery)	1,338	194	1,839	(159)
Depreciation and amortization expense	20,172	18,348	40,333	36,052
Operating income	17,445	18,059	33,807	34,838
Other income (expense):				
Interest expense	(8,696)	(8,403)	(17,250)	(16,735)
Amortization of loan and senior notes fees	(251)	(448)	(502)	(931)
Interest income	482	112	639	291
Other	282	-	169	-
Other expense, net	(8,183)	(8,739)	(16,944)	(17,375)
Net income before income taxes and cumulative effect of a change in accounting principle	9,262	9,320	16,863	17,463
Income tax expense	3,856	4,036	7,535	7,516
Net income before cumulative effect of a change in accounting principle	5,406	5,284	9,328	9,947
Cumulative effect of a change in accounting principle, net of income tax benefit of $425	-	-	(608)	-
Net income	5,406	5,284	8,720	9,947
Preferred stock dividends	-	55	-	148
Net income available to common shareholders	$ 5,406	5,229	8,720	9,799
Basic net income per common share:				
Net income before cumulative effect of a change in accounting principle	$ 0.10	0.10	0.17	0.18
Cumulative effect of a change in accounting principle	-	-	(0.01)	-
Net income	$ 0.10	0.10	0.16	0.18
Diluted net income per common share:				
Net income before cumulative effect of a change in accounting principle	$ 0.09	0.09	0.16	0.18
Cumulative effect of a change in accounting principle	-	-	(0.01)	-
Net income	$ 0.09	0.09	0.15	0.18
Common shares used to calculate basic EPS	55,688	54,637	55,526	54,815
Common shares used to calculate diluted EPS	57,260	55,612	56,941	55,919

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
(Unaudited)

(Amounts in thousands)

	Second Quarter 2006					Second Quarter 2005				
	Consumer	Network Access Services	Commercial	Managed Broadband	Totals	Consumer	Network Access Services	Commercial	Managed Broadband	Totals
Revenues										
Voice	$ 11,451	27,844	8,097	-	47,392	11,593	23,940	8,796	-	44,329
Video	22,329	-	1,933	-	24,262	21,142	-	1,889	-	23,031
Data	7,258	13,533	15,400	6,607	42,798	6,321	12,967	15,468	7,002	41,758
Wireless	3,185	-	583	-	3,768	1,293	-	254	-	1,547
Total	44,223	41,377	26,013	6,607	118,220	40,349	36,907	26,407	7,002	110,665
Cost of goods sold	17,124	8,794	11,605	1,075	38,598	15,712	7,791	11,151	1,391	36,045
Contribution	27,099	32,583	14,408	5,532	79,622	24,637	29,116	15,256	5,611	74,620
Less SG&A	18,544	9,771	8,857	3,495	40,667	17,629	8,547	8,309	3,534	38,019
Less / add bad debt expense (recovery)	677	-	395	266	1,338	(220)	-	(114)	528	194
Add other income	-	-	-	282	282	-	-	-	-	-
EBITDA	7,878	22,812	5,156	2,053	37,899	7,228	20,569	7,061	1,549	36,407
Add share-based compensation	508	605	348	121	1,582	-	-	-	-	-
EBITDA, as adjusted	$ 8,386	23,417	5,504	2,174	39,481	7,228	20,569	7,061	1,549	36,407

	Second Quarter 2006					First Quarter 2006				
	Consumer	Network Access Services	Commercial	Managed Broadband	Totals	Consumer	Network Access Services	Commercial	Managed Broadband	Totals
Revenues										
Voice	$ 11,451	27,844	8,097	-	47,392	11,311	24,485	8,023	-	43,819
Video	22,329	-	1,933	-	24,262	22,003	-	1,726	-	23,729
Data	7,258	13,533	15,400	6,607	42,798	6,961	13,338	15,910	6,208	42,417
Wireless	3,185	-	583	-	3,768	2,388	-	469	-	2,857
Total	44,223	41,377	26,013	6,607	118,220	42,663	37,823	26,128	6,208	112,822
Cost of goods sold	17,124	8,794	11,605	1,075	38,598	15,923	8,776	10,424	1,061	36,184
Contribution	27,099	32,583	14,408	5,532	79,622	26,740	29,047	15,704	5,147	76,638
Less SG&A	18,544	9,771	8,857	3,495	40,667	18,406	9,178	8,909	3,121	39,614
Less bad debt expense	677	-	395	266	1,338	257	-	139	105	501
Add other income (expense)	-	-	-	282	282	-	-	-	(113)	(113)
EBITDA	7,878	22,812	5,156	2,053	37,899	8,077	19,869	6,656	1,808	36,410
Add share-based compensation	508	605	348	121	1,582	262	206	161	49	678
EBITDA, as adjusted	$ 8,386	23,417	5,504	2,174	39,481	8,339	20,075	6,817	1,857	37,088

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
(Unaudited)

(Amounts in thousands)

	Six Months Ended June 30, 2006					Six Months Ended June 30, 2005				
	Consumer	Network Access Services	Commercial	Managed Broadband	Totals	Consumer	Network Access Services	Commercial	Managed Broadband	Totals
Revenues										
Voice	$ 22,763	52,328	16,120	-	91,211	23,589	44,909	17,577	-	86,075
Video	44,331	-	3,659	-	47,990	42,136	-	3,533	-	45,669
Data	14,219	26,872	31,310	12,815	85,216	12,566	26,142	30,214	13,817	82,739
Wireless	5,573	-	1,052	-	6,625	2,250	-	442	-	2,692
Total	86,886	79,200	52,141	12,815	231,042	80,541	71,051	51,766	13,817	217,175
Cost of goods sold	33,047	17,570	22,029	2,136	74,782	30,663	15,578	22,536	2,468	71,245
Contribution	53,839	61,630	30,112	10,679	156,260	49,878	55,473	29,230	11,349	145,930
Less SG&A	36,950	18,949	17,766	6,616	80,281	35,161	16,624	16,713	6,701	75,199
Less / add bad debt expense (recovery)	934	-	534	371	1,839	(464)	-	(208)	513	(159)
Add other income	-	-	-	169	169	-	-	-	-	-
EBITDA	15,955	42,681	11,812	3,861	74,309	15,181	38,849	12,725	4,135	70,890
Add share-based compensation	770	811	509	170	2,260	-	-	-	-	-
EBITDA, as adjusted	16,725 $	43,492	12,321	4,031	76,569	15,181	38,849	12,725	4,135	70,890

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
KEY PERFORMANCE INDICATORS
(Unaudited)

	June 30, 2006	June 30, 2005	March 31, 2006	June 30, 2006 as compared to June 30, 2005	June 30, 2006 as compared to March 31, 2006	June 30, 2006 as compared to June 30, 2005	June 30, 2006 as compared to March 31, 2006
Consumer							
Voice							
Long-distance subscribers	92,757	NA	93,760	NA	(1,003)	NA	-1.1%
Total local access lines in service	67,700	68,200	68,600	(500)	(900)	-0.7%	-1.3%
DLPS local access lines in service	25,300	12,400	24,100	12,900	1,200	104.0%	5.0%
Video							
Basic subscribers	121,900	121,200	122,100	700	(200)	0.6%	-0.2%
Digital programming tier subscribers	55,100	48,700	54,900	6,400	200	13.1%	0.4%
HD/DVR converter boxes	18,800	7,400	16,200	11,400	2,600	154.1%	16.0%
Homes passed	217,100	211,000	216,000	6,100	1,100	2.9%	0.5%
Data							
Cable modem subscribers	75,000	64,300	74,000	10,700	1,000	16.6%	1.4%
Network Access Services							
Voice:							
Long-distance subscribers	30	NA	31	NA	(1)	NA	-3.2%
Total local access lines in service	3,300	3,600	3,300	(300)	-	-8.3%	0.0%
Commercial							
Voice:							
Long-distance subscribers	11,676	NA	11,765	NA	(89)	NA	-0.8%
Total local access lines in service	40,400	40,100	40,600	300	(200)	0.7%	-0.5%
DLPS access lines in service	1,100	400	1,000	700	100	175.0%	10.0%
Video							
Hotels and mini-headend subscribers	16,500	14,800	13,900	1,700	2,600	11.5%	18.7%
Basic subscribers	1,500	1,400	1,500	100	-	7.1%	0.0%
Total basic subscribers	18,000	16,200	15,400	1,800	2,600	11.1%	16.9%
Data							
Cable modem subscribers	7,100	5,900	6,900	1,200	200	20.3%	2.9%
Broadband							
SchoolAccess® customers	45	43	47	2	(2)	4.7%	-4.3%
Rural health customers	21	21	21	-	-	0.0%	0.0%
Combined Consumer & Commercial							
Wireless							
Total lines in service	22,900	12,161	20,100	10,739	2,800	88.3%	13.9%

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Three Months Ended March 31, 2006	June 30, 2006 as Compared to June 30, 2005	June 30, 2006 as Compared to March 31, 2006	June 30, 2006 as Compared to June 30, 2005	June 30, 2006 as Compared to March 31, 2006
Consumer							
Voice							
Long-distance minutes carried (in millions)	35.9	40.5	36.9	(4.6)	(1.0)	-11.3%	-2.6%
Video							
Average monthly gross revenue per subscriber	$ 60.92	$ 59.22	$ 63.87	$ 1.70	$ (2.95)	2.9%	-4.6%
Network Access Services							
Voice							
Long-distance minutes carried (in millions)	331.5	271.3	288.0	60.2	43.5	22.2%	15.1%
Commercial							
Voice:							
Long-distance minutes carried (in millions)	34.4	35.9	35.1	(1.5)	(0.7)	-4.2%	-2.0%

General Communication, Inc.
Non-GAAP Financial Reconciliation Schedule
(Unaudited, Amounts in Millions)

	Three Months Ended		
	June 30, 2006	June 30, 2005	March 31, 2006
EBITDA, as adjusted (Note 1)	$ 39.5	36.4	37.1
Share-based compensation expense	(1.6)	---	(0.7)
EBITDA (Note 2)	37.9	36.4	36.4
Depreciation and amortization expense	(20.2)	(18.4)	(20.1)
Other	(0.3)	---	0.1
Operating income	17.4	18.0	16.4
Other income (expense):			
Interest expense	(8.7)	(8.4)	(8.6)
Amortization of loan and senior notes fee expense	(0.2)	(0.4)	(0.3)
Interest income	0.5	0.1	0.2
Other	0.3	---	(0.1)
Other expense, net	(8.1)	(8.7)	(8.8)
Net income before income taxes and cumulative effect of a change in accounting principle	9.3	9.3	7.6
Income tax expense	(3.9)	(4.0)	(3.7)
Net income before cumulative effect of a change in accounting principle	5.4	5.3	3.9
Cumulative effect of change in accounting principle, net of income tax benefit of $0.4	---	---	(0.6)
Net income	$ 5.4	5.3	3.3

		Six Months Ended	
		June 30, 2006	June 30, 2005
EBITDA, as adjusted (Note 1)	$	76.6	70.9
Share-based compensation expense		(2.3)	---
EBITDA (Note 2)		74.3	70.9
Depreciation and amortization expense		(40.3)	(36.1)
Other		(0.2)	---
Operating income		33.8	34.8
Other income (expense):			
Interest expense		(17.3)	(16.8)
Amortization of loan and senior notes fee expense		(0.5)	(0.9)
Interest income		0.6	0.3
Other		0.2	---
Other expense, net		(17.0)	(17.4)
Net income before income taxes and cumulative effect of a change in accounting principle		16.8	17.4
Income tax expense		(7.5)	(7.5)
Net income before cumulative effect of a change in accounting principle		9.3	9.9
Cumulative effect of change in accounting principle, net of income tax benefit of $0.4		(0.6)	---
Net income	$	8.7	9.9

Notes:

(1) EBITDA (as defined in Note 2 below) before deducting share-based compensation expense.

(2) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is the sum of Net Income, Interest Expense, Amortization of Loan and Senior Notes Fees, Interest Income, Income Tax Expense, and Depreciation and Amortization Expense. EBITDA is not presented as an alternative measure of net income, operating income or cash flow from operations, as determined in accordance with accounting principles generally accepted in the United States of America. GCI's management uses EBITDA to evaluate the operating performance of its business, and as a measure of performance for incentive compensation purposes. GCI believes EBITDA is a measure used as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected EBITDA are used to estimate current or prospective enterprise value. EBITDA does not give effect to cash used for debt service requirements, and thus does not reflect funds available for investment or other discretionary uses. EBITDA as presented herein may not be comparable to similarly titled measures reported by other companies.

Exhibit D

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as Amended, for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, And for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska, Incumbent Local Exchange Carrier Study Area	)))))))))	WC Docket No. 06-109

STATEMENT OF MARK ENZENBERGER IN SUPPORT OF REPLY COMMENTS OF ACS OF ANCHORAGE, INC.

1. Based on my experience at ACS of Anchorage, Inc. ("ACS"), I have knowledge and understand the nature of competition in the market for enterprise services in Anchorage. Additionally, based on public information and reasonable assumptions regarding the location of the facilities of General Communication, Inc. ("GCI"), I have general knowledge regarding the significant reach of GCI's fiber network.

2. GCI's fiber facilities interconnect with each of ACS's five wire centers. It is generally known that GCI has fiber facilities at the following locations in Anchorage: (i) GCI's headquarters on Denali Street, (ii) its local switch location at Raspberry Road and C Street, (iii) its video headend in Anchorage Business Park, which is located in the midtown region of Anchorage, and (iv) the Diamond Center Mall, where ACS also has facilities. Based on ACS's field operations, ACS has knowledge that GCI uses fiber to serve some of its major customers in Anchorage, including Arctic Slope Regional Corporation, BP, First National Bank, Wells Fargo, and the Center Point Building. Based on the location of these customer locations, I can deduce

that GCI could easily serve many of the major buildings along the routes that run among these locations. The fiber route that connects these locations passes most major buildings in the midtown business corridor in Anchorage.

3. In new buildings, GCI has the same opportunity as ACS to negotiate exclusive access. Indeed, there are several multi-tenant commercial buildings in Anchorage where ACS has no facilities and that GCI likely has fiber, given the size of the building and of the customers occupying the building. For instance, GCI has exclusive entrance facilities into the Arctic Slope Regional Corporation and the Center Point buildings, both in the midtown business district in Anchorage. ACS does not have facilities in these buildings and has experienced difficulty serving tenants in these buildings.

Respectfully submitted,

<u>/s/ Mark Enzenberger</u>
Mark Enzenberger
Director of Complex Services
600 Telephone Ave., MS 60
Anchorage, Alaska 99503